

The Economy in Reconversion

A Review of 1946

By the
Office of Business Economics

LOOKING back over 1946 it can be said that the economy weathered reasonably well the first full year of adjustment to peacetime conditions. The total national output was lower than in 1945, though the trend was upward from the low point reached early in the year under the initial impact of reconversion. Withdrawals of both a permanent and temporary nature shrank the labor force from the abnormally high war levels so that unemployment did not represent a major problem even in the early months of the year.

The reduction of the abnormally high rate of personal savings of the war years enabled the flow of goods into consumption to increase as output of civilian type goods was expanded, even though the abandonment of price controls in the latter part of the year meant that these goods were being offered at sharply advanced quotations.

With the sweeping away of price controls, except those on residential rents, sugar, and rice, the last of the major economic restraints imposed during the war was removed. By the end of 1946, therefore, market forces had been returned to their traditional role of guiding output and distributing both the factors of production and the product of industry.

Demand Pressure Strong

From the outset of 1946, businessmen proceeded upon the assumption that rising sales to the enlarged civilian population and increasing profits were ahead. This was evidenced equally by the aggressiveness with which capital expenditure plans were pushed and the eagerness with which bidding proceeded for the available goods. These expectations, with but few exceptions, were realized. In the final months of the year, the culmination of the sellers' market was reached, with the sharpest mark-up of prices for any similar period in history.

Throughout the year, as earlier during the all-out war effort, the underlying economic pressures were on the side of demand. These pressures continued to find their source in the current and pent-up requirements of the civilian economy, but the pressures gradually lessened as they were no longer reinforced by the urgent needs of the fighting forces. Thus, the major problem during this year

of transition continued to be one of production, but within the special setting and requirements of reconversion. The insistent nature of demand gradually—and then rapidly—diminished as the increased flow of goods at higher prices quickly cut the rate of savings from current incomes and caused a reappraisal by consumers of both their needs and ability to buy. When this point was reached, the impetus of the price advance was in large part lost.

The year saw the reorganization of resources and the refilling of pipe lines to permit the resumption of production in industries formerly turning out munitions. The steady uptrend of output in this area was accompanied by the already high and, in many instances, still rising rates of output in other economic sectors less directly involved in reconversion tasks. The result was an annual aggregate of production which, while considerably lower in physical terms than the output of the war years, was nevertheless well above the output in the prewar year 1941.

It is not possible, of course, to make any precise comparison with the prewar years, but the approximate increase in total real output over 1941 was about one-fifth. Production was better balanced in 1941 in relation to consumer needs, since in that earlier year distortions associated with preparing for war were not especially important.

The price rise, however, raised the 1946 value of output to within 3 percent of the 1945 total and to 61 percent more than in 1941.

Expansion Resumed

Last year's annual review described how the economy was quick to muster strength after the sudden end of the war and the subsequent large reduction in military procurement. The upsurge of industries formerly held down by wartime shortages, continuance of relatively high activity in plants undergoing reconversion, the emergence of heavy backlog demands—these and related factors served to offset a large part of the sharp contraction in the Government sector. By early 1946 it was possible for the expansionary forces to assume a dominating role in the economy. Further cut-backs made in Government procurement after that date were more than offset by the continued advance in other sectors.

Nonagricultural employment advanced steadily and by the end of the year was 5 million larger than at the end of 1945 and some 4 million larger than in early 1945 when war production was at a peak. Monthly income payments also moved upward during 1946 to top earlier highs. It may be noted, however, that important

components of the income and employment totals—such as those components related to activity in durable goods manufacturing—remained below wartime levels.

The trends of these and other indicators of business activity are illustrated in the charts accompanying this introductory section.

The rise in unemployment during reconversion was limited by the strength of the recuperative forces in the economy and by the large-scale withdrawal from the labor force of war-induced entrants—mostly women, but including a substantial number of veterans taking advantage of the educational benefits afforded under the GI bill of rights. In early 1946, a total of 2½ to 3 million persons were reported by the Bureau of the Census as without jobs and actively seeking work. At the same time the number of veterans temporarily delaying their return to the labor market was in the neighborhood of 1½ million. This gave a combined total of 4 to 4½ million workers who could be placed in the category of normally seeking employment.

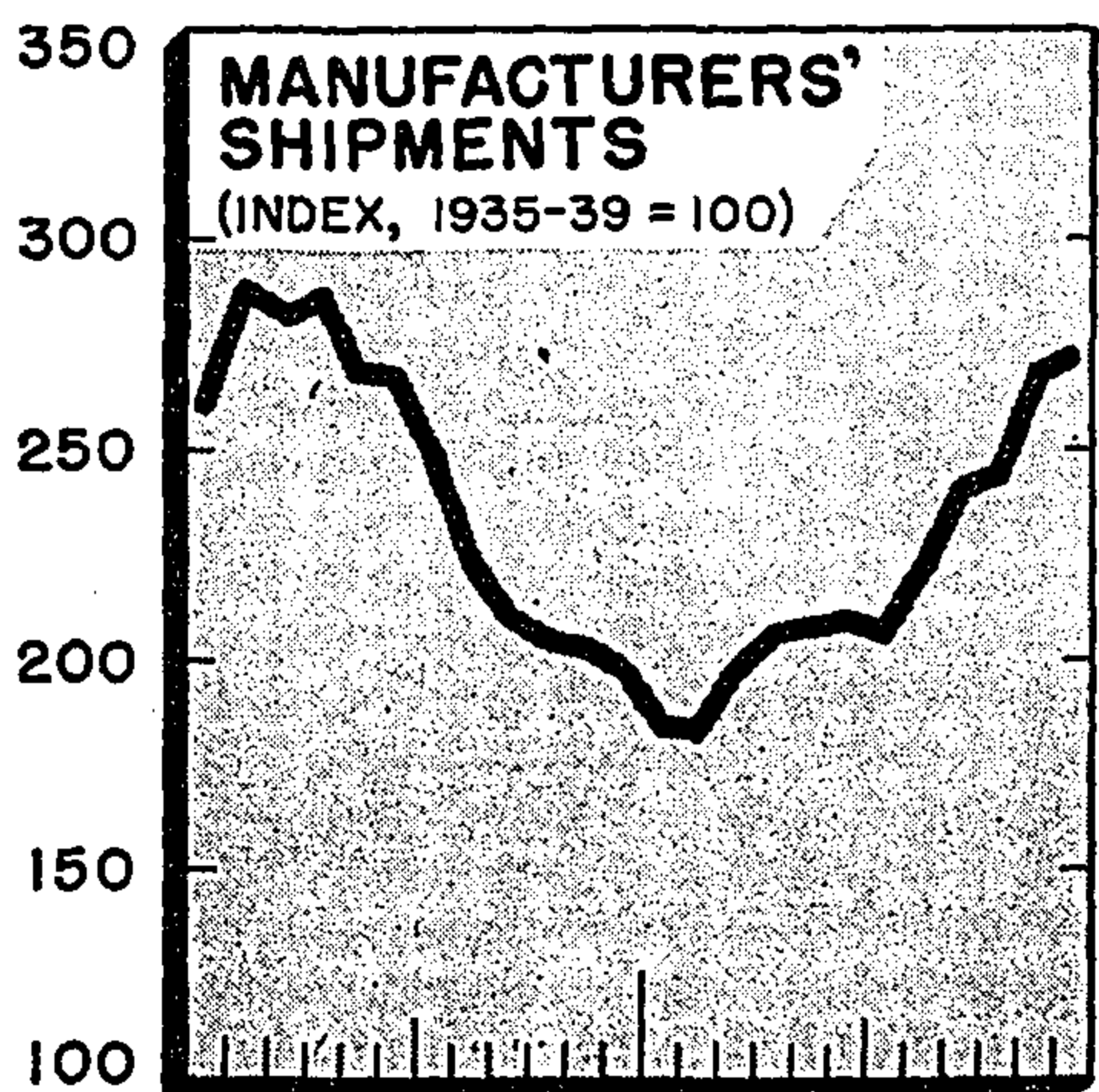
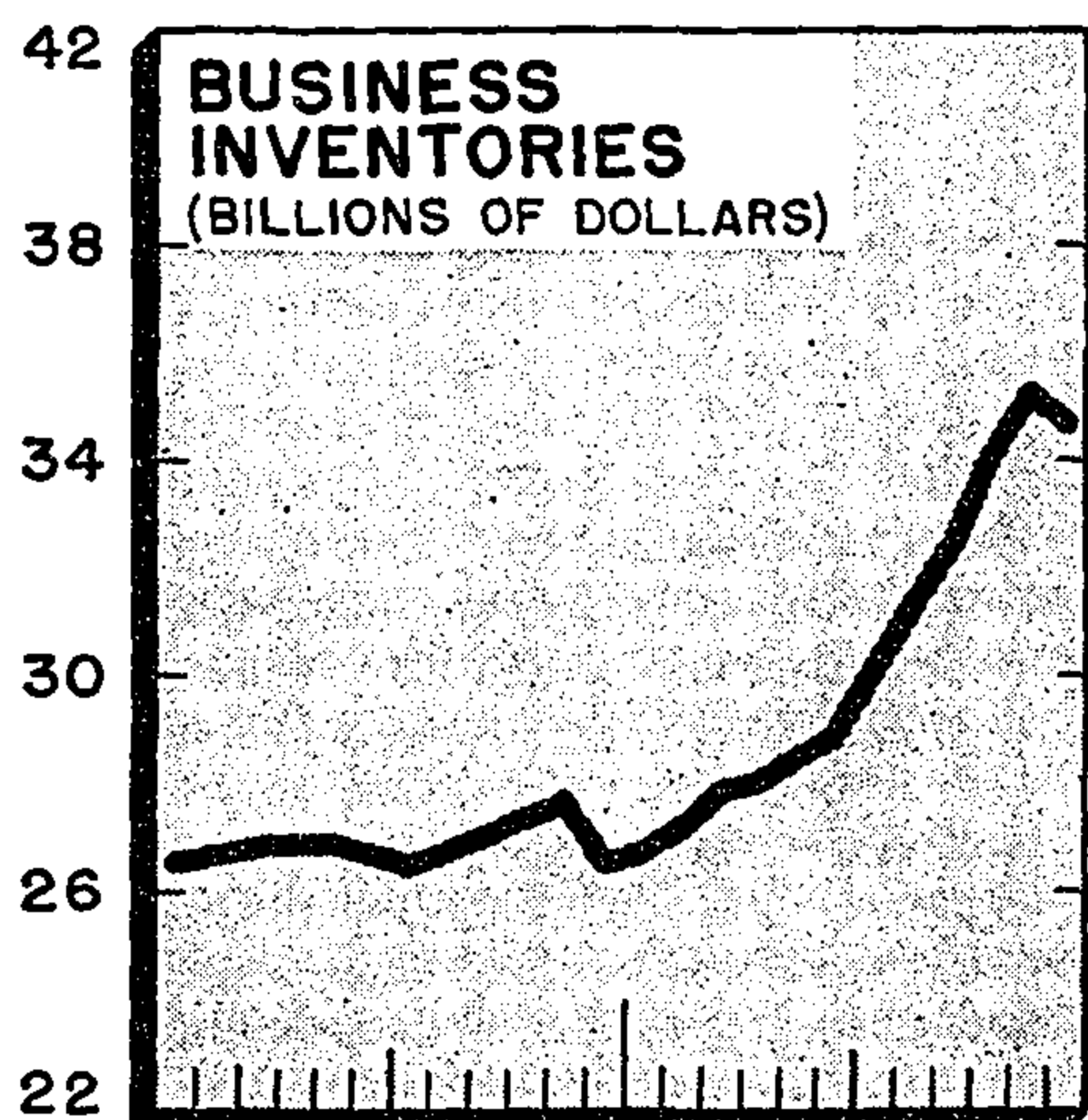
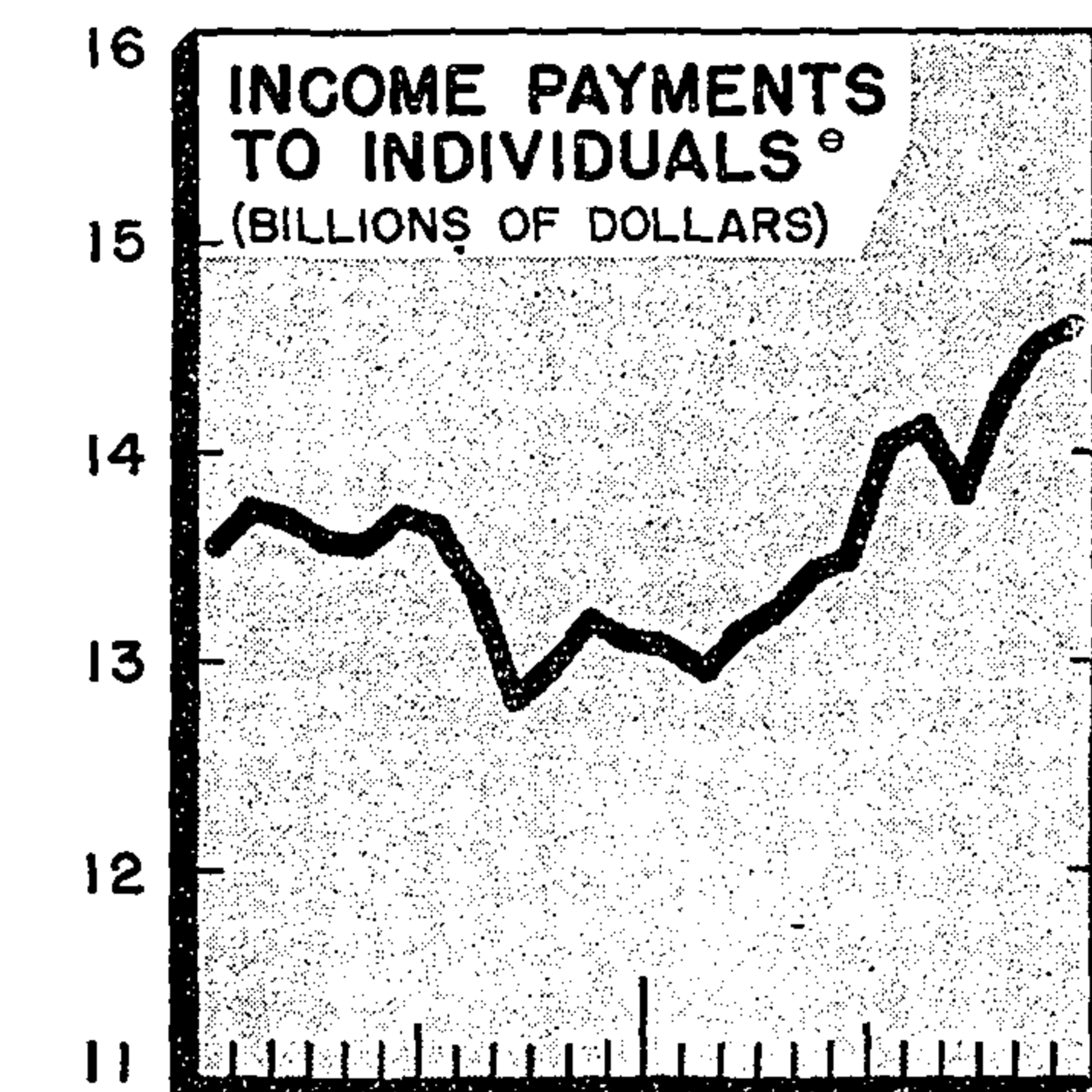
Between July, 1945, and February, 1946, there was a reduction of approximately 8 million in the total labor force. This shrinkage included the withdrawal of veterans and war workers, as noted above, and the normal seasonal decline from the July peak. Small additional war worker withdrawals after February were more than offset by the normal growth of the labor force and by the return of veterans who had been resting.

Aftermath-of-the-War Influences

Aftermath-of-the-war influences permeated all phases of economic activity during 1946. The major developments on the production front, the labor front, the price front, and the demand front, were not so much characteristic of a period of general business expansion such as occurs in the rising phase of a normal business cycle as they were peculiar to this particular period of rapid transition from an economy long mobilized for war production to an economy being geared to full-scale peacetime operations. While many adjustments incident to this transition had been worked out by the end of the year, others remained to be resolved before the economy could be said to be restored to a more or less normal peacetime footing.

Imbalance in Input-Output Relations

In the production sphere, for example, the fact that the economy was in a transitional stage was evident in the imbalance between the output of finished goods and the input of labor and raw materials in the durable goods indus-

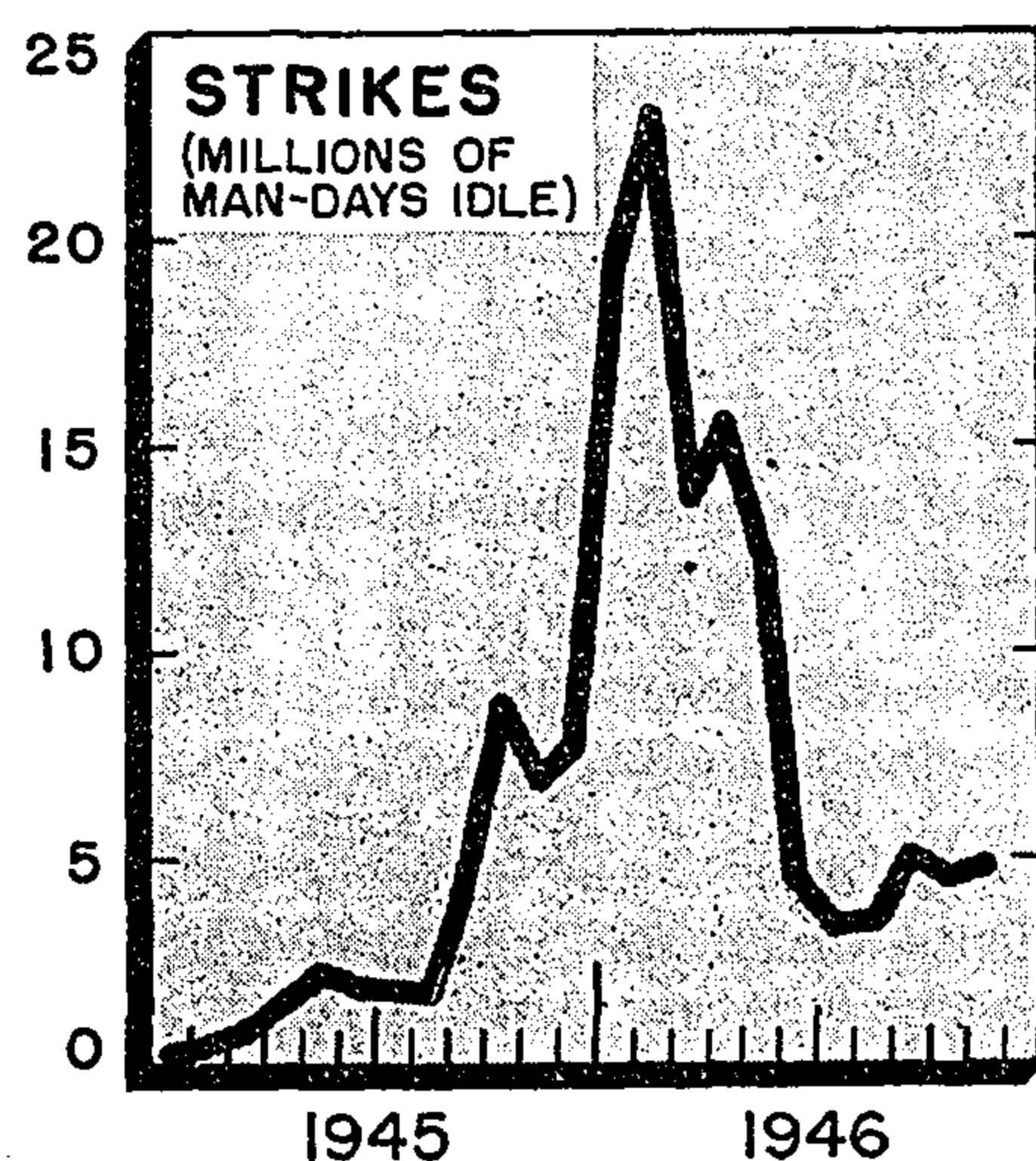


1945 1946
⊖ SEASONALLY ADJUSTED

tries. This imbalance was particularly marked during the early months of last year while supply lines were being built up and arrangements were being made for a steady flow of parts and subassemblies. Until such preliminary activities had been completed, there could be only a trickle of finished goods output from the former munitions plants.

The input-output imbalance tended to be corrected as the year progressed, but the correction was by no means completed when the new year was ushered in. Plant operations continued to be interrupted by temporary shortages of materials in heavy demand or by the uneven flow of components—work stoppages resulting from industrial disputes were often an indirect if not a direct factor in such interruptions. Moreover, as long as output in some mass production industries was still in a rising phase, it was necessary for the allocation of the input factors to be weighted in favor of the earlier rather than the later stages of production.

The experience in the automobile industry illustrates this situation. Throughout most of 1946 employment in this industry was considerably above the level in a prewar year such as 1940. Nevertheless, in no month of last year did the combined rate of production of passenger cars and trucks attain the peak monthly rate of the earlier year, nor did the increase in the production of replacement parts account for this disparity. This experience was not a case of a setback in technological progress or a misdirection of productive efforts, but was essentially a transitional phenomenon characteristic of any major change-over in final product output. It was, of course, aggravated by the fact that other industries were in a comparable situation. The usual input-output measures of productive efficiency are not applicable under such conditions.



Industrial Disputes Reach High Point

On the labor front, as well, the major developments were in the nature of adjustments to the changed environment following the liquidation of the war economy. The widened area of industrial disputes in the early months of the year was, to some extent, a repetition of the experience after World War I.

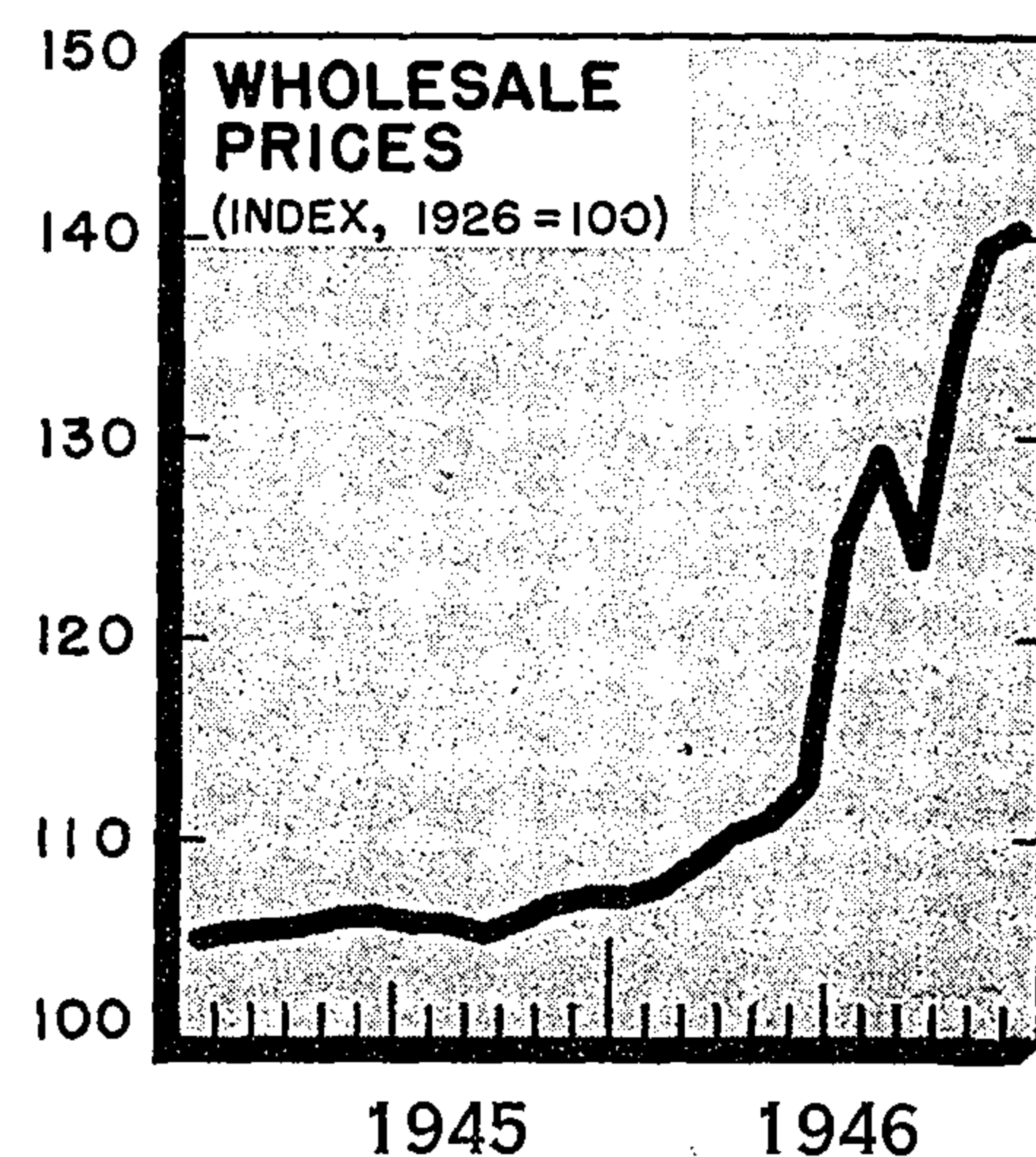
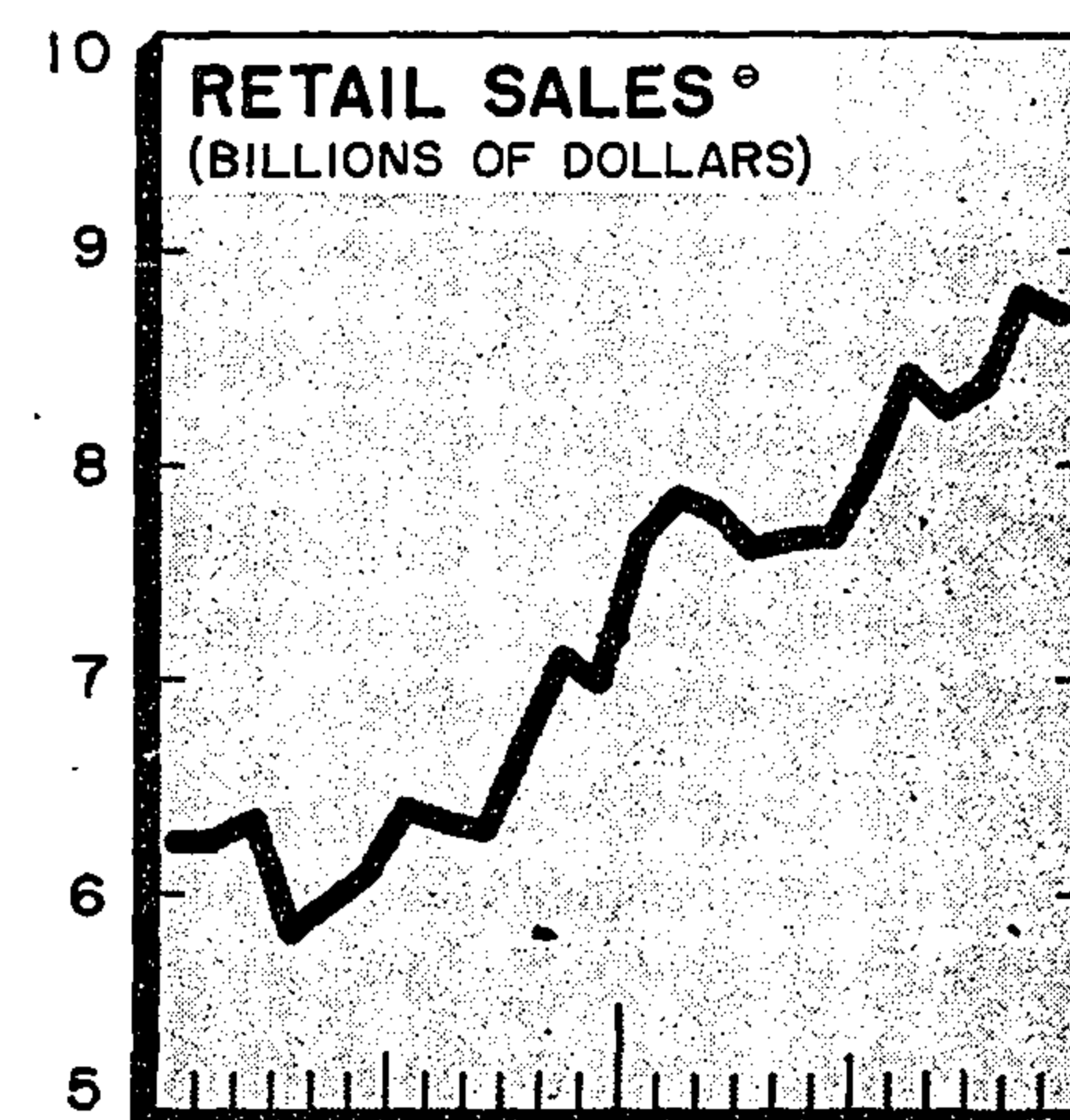
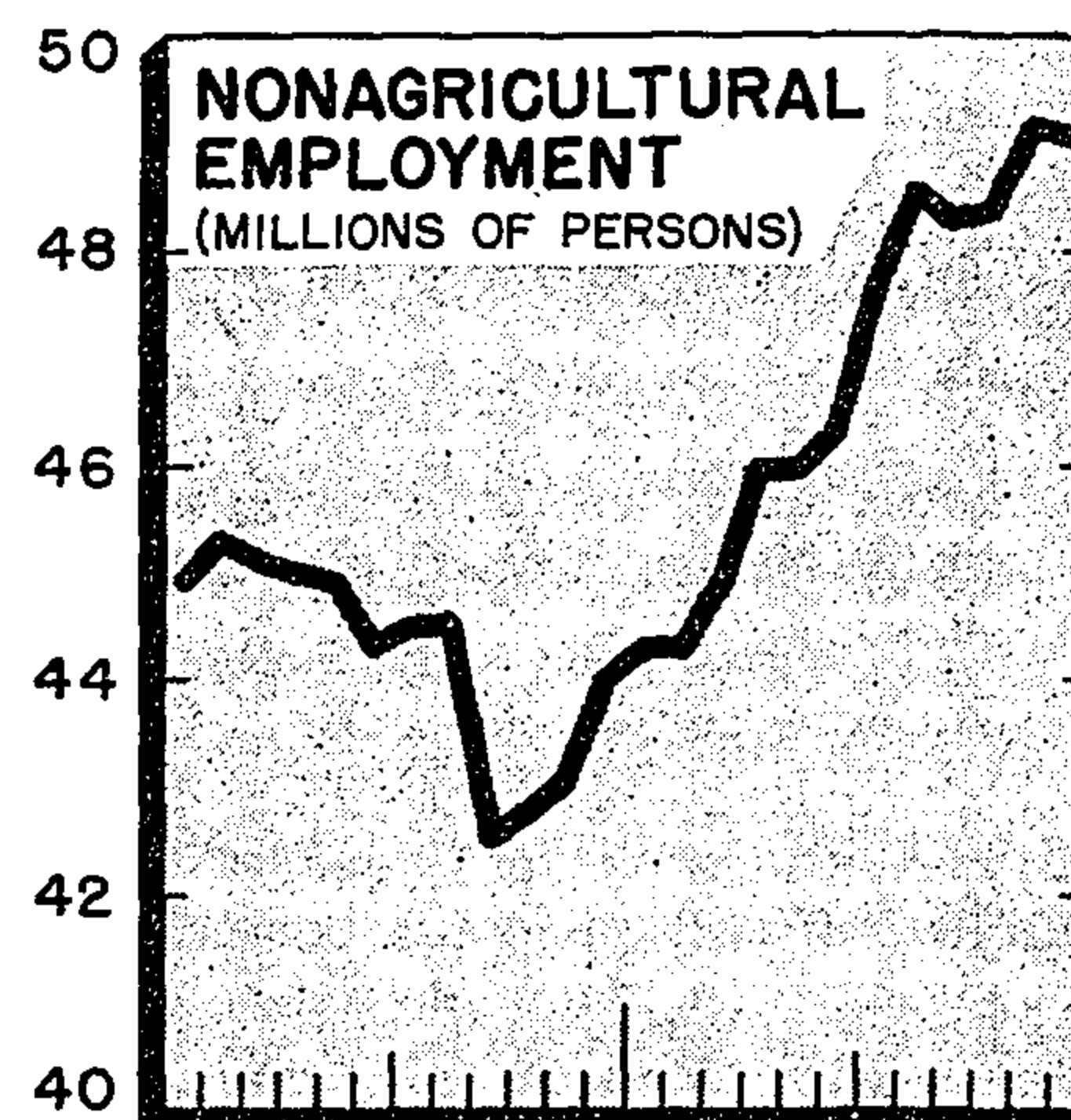
As shown in the chart, man-days idle as a result of strikes and lock-outs rose to a high point in February of last year when the idle time amounted to about 4 percent of total working time in manufacturing. This estimate, however, does not include time lost because of the secondary effects of work stoppages.

Postwar Changes Create Wage Problem

The 1946 wave of labor-management controversies was initiated soon after VJ-day when cuts in wage earnings consequent upon the reduction in hours and shifts in employment from "war" to other occupations—at a time when the cost of living was being maintained—gave rise to a widespread demand for general wage increases. The ensuing work stoppages affected the basic steel industry, major segments of the automobile and electrical machinery industries, and many others.

The mid-February settlement in steel, at which time a new wage-price policy was issued by Executive order, established the pattern of wage adjustments for the large manufacturing concerns and resulted in upward adjustments throughout industry. However, the wave of work stoppages did not recede to much lower levels until after the shut-down at the soft coal mines during April and part of May was followed by the crisis in rail transportation. Fortunately for the economy, the rail strike was quickly terminated. Another crisis was averted in December when the bituminous coal mines—which were under Government operation—were reopened after the November shut-down. This threat to the economy was terminated when the Government resorted to court procedures.

The outcome of the postwar wage adjustments was that from the war peak reached in the first quarter of 1945 to the final quarter of 1946 average hourly earnings in nonagricultural employment were raised about 11 percent and average weekly earnings about 4 percent. The increases were considerably less than average in industries where overtime was important during the war, and considerably above average elsewhere. In non-manufacturing industries, for example, both weekly and hourly earnings advanced about 15 percent, on the average.



⊖ SEASONALLY ADJUSTED

The sweeping price rise after the elimination of price controls outstripped the advance in wages and impaired purchasing power to the extent that concern was being expressed at the year-end as to whether the then existing wage-price relationships would permit a satisfactory solution to the emerging problem of assuring adequate markets to sustain high production and employment in the period

ahead. It is evident that the post-decontrol advance in prices received its major impetus from demand rather than cost factors. This is most clearly seen in the rise in farm prices. Higher prices of materials, as well as higher wage rates, often meant higher costs for business firms. Cost increases were, of course, a major factor in the rise of many manufactured products.

Transitional Influences Bolster Demand

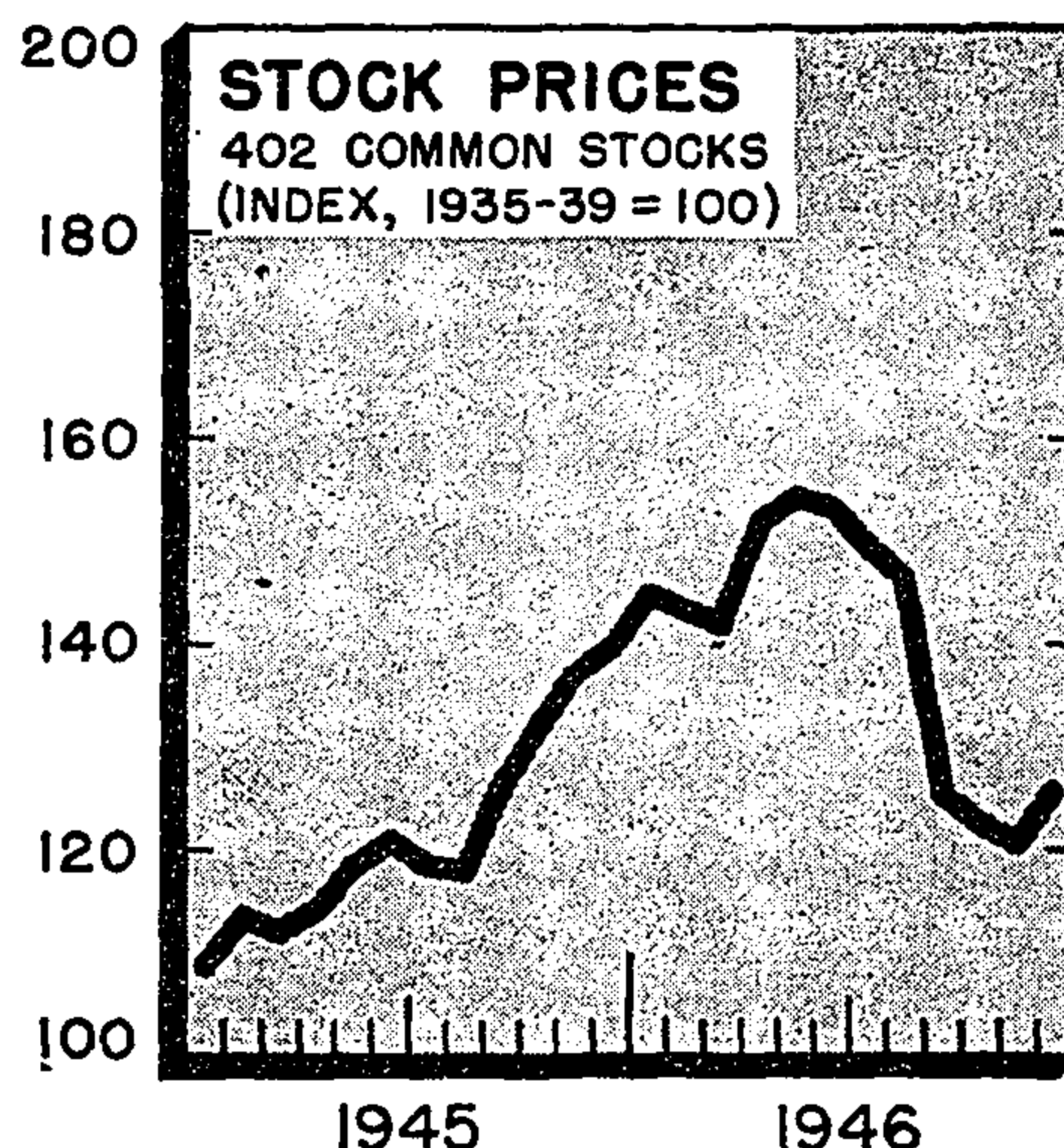
A third area where the effects of transitional influences were apparent was in the field of consumer and business buying. The consumer market was supported by the needs of the large number of returning servicemen and by the appearance of heavy backlog demands for goods largely unavailable during most of the war years. By the year end much of the backlog demand was still unsatisfied, although it was being steadily whittled down by the rising curve of prices as well as by the mounting output of goods formerly hard to get.

In the aggregate, the distribution of consumer incomes as between expenditures and savings for the year as a whole was about in line with prewar relationships. Toward the end of the year, however, this relationship was being disturbed by the price rise. Furthermore, as pointed out in detail in a later section, spending for durable goods and consumer services throughout 1946 was below the amounts indicated by the prewar relationship and spending for non-durables was considerably above the indicated volume. Much of the above-average spending in the latter category occurred in food where price increases were particularly outstanding.

The existence of pent-up demands resulted in considerable price pressure on consumer durable goods but did not result in any spending "bulge," since these goods remained in short supply through the year end. It was the latter fact which permitted consumers to divert more than the usual share of income to nondurable goods purchases. This source of funds for diversion will be gradually wiped out as durables appear in greater supply.

Large Inventory Requirements

The rate of business buying during the reconversion period was augmented by the need for rebuilding inventories at all stages of production and distribution. This need was not merely a consequence of the bare shelves, empty stock bins, and unfilled pipe lines, which were a legacy of the general shortages during the war. Large-scale inventory rebuilding was necessary in the reconversion industries where war stocks had been liquidated and materials and supplies had to be re-



stocked as a preliminary to the resumption of civilian production.

Considerable inventory replenishment was accomplished during 1946, with the build-up of stocks accelerating after mid-year. By the year end, the total book value of business inventories—in the hands of manufacturers, wholesalers, and retailers—had been raised to 34.9 billion dollars as compared with 26.4 billion dollars a year earlier. A substantial portion of the increase reflected higher prices.

The over-all inventory-sales relationships at the end of 1946 suggested that the market prop afforded by inventory buying was not likely to be eliminated immediately and on a wide scale. While top-heaviness was apparent in a few lines, shortages still persisted in many others. Nevertheless, the rapid rate of accumulation was itself evidence of adjustment ahead.

Capital Outlays Expand Rapidly

The rate of business buying in 1946 also was augmented by expanded outlays for plant and equipment purchases. Pent-up demands were heavy in this field because of the restrictions on construction during the war and because of the difficulty of securing machinery not essential to munitions production. Thus, business outlays for these purposes rose sharply after the end of the war, from an annual rate of about 6 billion dollars in the second quarter of 1945, to 14 billion dollars in the final quarter of 1946.

Residential construction is another area where deficiencies carried over from the war—and, in this case, from the prewar period, as well—resulted in a spurt in activity following VJ-day. While the buying strength in this sector is clearly of the aftermath-of-the-war character, it is certain to prove of longer duration than the other bolstering influences previously noted.

Finally, the demand for domestically produced goods was augmented during 1946 by the pressing relief and rehabilitation needs of war-devastated areas. A significant share of total exports was financed through unilateral transfers of various types, including funds made available to the United Nations Relief and Rehabilitation Administration, through Government-extended credits, and through the drawing down of foreign-owned gold and dollar balances.

Price Rise

Clearest evidence of the combined strength of the demand forces was provided by the rapid rise in prices during 1946, particularly during the last half of the year when price controls were removed. The full-year rise amounted to 30 percent at wholesale and 18 percent in the consumers' price index, on the basis of the BLS indexes. The magnitude of the price increases provided an indication of the extent to which the former ceilings had held prices below the levels that would have been established in a free market, though the elimination of previously paid subsidies was a factor in the rise in some commodities. In all cases the price advances meant a higher payment for the buyer; to the extent of the subsidies, it did not always mean that the yield to the seller went up correspondingly.

The important points to be noted about the price rise are these:

1. The increase was general, although the largest percentage gain occurred in foods, with the increases in hides and leather and in textiles coming next in order of size.

2. The broad price movement was upward through the year end, despite a few declines such as the break in the raw cotton market in October.

3. The increase inevitably resulted in an impairment of consumer purchasing power since, aside from the portion of the added income which was siphoned off in larger tax payments or in retained corporate earnings, the incomes of many large consumer segments did not move up in line with the advance in prices.

Stock Market Reversal

The accelerated price rise in the second half of 1946—which lifted farm income and over-all business profits above earnings in any previous period—did not have a counterpart in the stock market. Almost coincident with the rise in commodity prices, stock prices took a sharp downward turn.

This decline was one of the developments which was interpreted by business as a danger signal. Together with the increasingly general recognition of

the temporary character of some of the current market demands—notably that for rebuilding inventories—and the increasing degree of consumer resistance to steeply higher prices, as well as a growing distaste for low-quality merchandise, the price decline in stocks undoubtedly was a factor in the shift in buying psychology from the bright green, which shone throughout the first half of the year, to the amber which was very clearly seen by buyers at the end of the year.

Sellers' Market on the Way Out

While there is considerable uncertainty as to how soon the temporary supporting influences will disappear, it is nevertheless apparent that with the improved flow of goods and the elimination of some of the most urgent backlog demands, the sellers' markets of recent years are already on the wane.

Evidences of the change have been widespread, though the major manifestation late in 1946 was in luxury lines where very considerable adjustments were possible without impairing the real standard of living. In furs, in jewelry, at winter resorts, and at the race tracks, business was down, even though it was still high by any standards except those of the peak war period. With real purchasing power falling rapidly in the final months of the year—particularly for those who are not major patrons of the luxury trades—it was necessary for adjustments to be initiated beyond this select circle. Thus, spending upon some of the day-to-day requirements was being curtailed.

From the standpoint of producers and sellers of goods and services, cost-price relationships at the end of the year were yielding, by and large, a margin of profits in line with those in other years of high business activity. While profit experience varied considerably during 1946, this variation was largely a consequence of the comparative ability of various industries to supply the market. The reconversion industries during much of the year generally were unable to do so, and it was not until the final half year that such industries raised production up to a point where substantial profits were again being generated.

In sum, it was apparent at the end of 1946 that the second phase of the post-war readjustment of the economy—getting over the reconversion hump—had been passed. The free spending psychology was on the wane at the same time that the temporary general production and market conditions which delayed the attainment of efficient production in some industries were also being corrected. This meant that pressures being built up would again focus the energies of the country toward accelerating the efficiency of production, and assuring the consumer more value for his dollar.

Balancing Output With Demand

With the prices at the year-end already cutting sharply into the purchasing power of some of the major consumer segments, the question that confronted the economy was whether the increased quantity of final products could be absorbed through purchasing power adjustments without necessitating a decline in the over-all volume of production and

employment. Fundamentally, the question posed was one of income-price-cost relationships and not of lack of apparent business opportunities. The backlog carried over from the war was of sufficient size and potency, and the available financial resources were so great, as to make possible a sustained high level of operations for the economy for an extended period. The developing imbalances nonetheless carried the threat of a temporary setback. The general recognition of these difficulties was a healthy development since it meant early, rather than late, stock-taking and possible constructive action.

Production in 1947 could very definitely advance to higher levels. The flow of the final products to consumers could be expected, on the basis of the production outlook, to be some 10 percent larger than the rate of flow in the final months of 1946. The objective for total production—including intermediate products such as inventories—implies not quite so large an increase in relative terms because production will be better balanced than in 1946.

There is as yet, however, no answer as to whether inventory accumulation, a very dynamic factor in late 1946, will taper off gradually, or whether accumulation will proceed to such a high point that a violent correction will then ensue. Nor is there yet an answer to what will happen to the consumption pattern as the enlarged flow of durable goods challenges the abnormally high volume of consumer nondurable goods expenditures relative to incomes, which was the outstanding feature of the sales picture in late 1946.

National Income and National Product¹

The gross national product, which had dropped rapidly with the end of the war, turned upward after the first quarter of 1946. (See Chart 1.) The dollar total for the year of 194 billion dollars was lower than in 1944 and 1945, but the fourth quarter seasonally adjusted annual rate of 205 billion dollars approxi-

mated the wartime peak reached during the first half of 1945. The gross national product represents the total output of final goods and services at market prices, and inclusive of government services.

In real terms, however, the output of the economy as a whole in 1946 was considerably lower than in the war years. In view of the shifting nature of the product exact comparisons are not possible, but the reduction approximated one-seventh. In comparison with 1941, however, there is an increase of about

one-fifth, reflecting the higher level of employment and the more productive utilization of resources in the economy.

Divergent Movements

As the year opened, the rapid decline in Government expenditures was tapering sufficiently to be about offset by the unprecedented expansion of capital formation and consumer expenditures. By the second quarter, the volume of output was on the upgrade, though the change in the national product for this period was slight. The rise in the dollar

¹ The product and income tables are presented in abridged form in this issue; more detailed estimates will be published in a subsequent issue, together with a general revision of the series. The present estimates represent an extension of those published in the February 1946 issue.

totals reflected the beginning of the price rise.

With the lapse of price controls on July 1 and their partial reinstitution and subsequent abandonment, prices jumped sharply, and the national product measured in current dollars likewise increased rapidly in the third and fourth quarters. In fact the increases in current dollars in these two quarters approached those during the 1942 conversion to war production, the most rapid period of expansion in the Nation's history.

Composition of Product

While the size of the national product in current dollars now is unprecedented except during the War, the composition in terms of three broad categories follows the prewar pattern more closely than might have been expected. In prewar years consumer goods and services approximated two-thirds of the gross product, government expenditures for goods and services one-sixth and private gross capital formation one-sixth. In the second half of 1946 the seasonally adjusted figures show consumer expenditures almost exactly two-thirds of the gross product, Government expenditures slightly less than one-sixth and capital formation slightly more than one-sixth.

That Government expenditures for goods and services are actually less than their prewar proportion of total product may seem strange in view of the size of the Federal budget, but this is because a large part of current Federal expenditures are in the form of loans and transfer payments rather than of payments for goods and services.

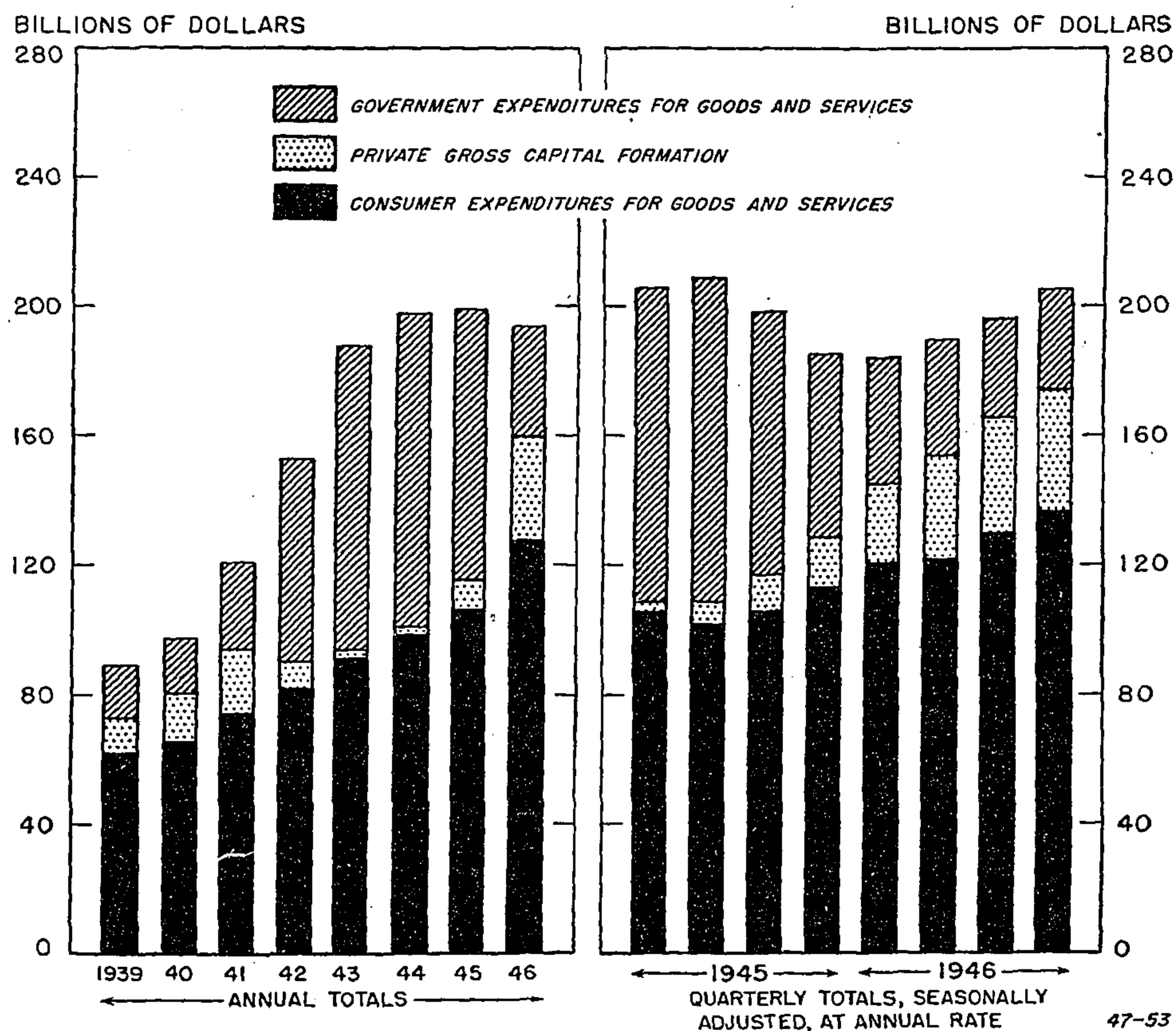
Coincidence of the proportions for the three broad categories, however, should not be interpreted to mean that a normal balance has been restored in the economy. Within the three categories there are still imbalances which stand out prominently.

Shift in Government Sector

Government expenditures for goods and services declined sharply during the first three quarters of the year and leveled off in the fourth quarter. The decline was confined to "war" expenditures, which at annual rates dropped from 24 billion dollars in the first quarter to 10 billion in the fourth quarter.

In total, the Federal Government had after seasonal adjustment a substantial excess of expenditures for goods and services plus transfer payments to individuals during the first half of the year, but an even larger excess of receipts during the second half. However, the Government did not exercise such a deflationary impact upon the economy as might be inferred from this because of

Chart 1.—Gross National Product



Source of data: U. S. Department of Commerce.

the large government loans which were granted to finance international transactions. Such loans were a potent factor in the market demand from abroad for final products, and these goods and services show up in the net exports when classified in the gross national product figures.

In contrast to the Federal Government, State and local government expenditures for goods and services not only increased but increased more sharply than revenues. Needless to say, the magnitudes involved were much smaller than for the Federal Government.

Capital Outlays Double Prewar

Private capital outlays, including construction, purchases of machinery and equipment, changes in business inventories and foreign investment, totaled 32 billion dollars for the year as a whole—a record high, more than three times the total for 1945. The seasonally adjusted annual rate in the latter half of the year of 37 billion dollars is about double the dollar total in the best prewar years of 1929 and 1941. This is a dollar amount capable of providing an investment outlet for a very large volume of individual and corporate savings as well as reinvestment of depreciation and other business reserves.

Construction Moves Up

Both residential and other private construction went forward at a rapid rate in the first two quarters of 1946. By mid-year, however, the volume of projects under way was too great relative to the volume of production and stocks of building materials, and in the last two quarters the seasonally adjusted rate of construction activity showed more modest gains.

The dollar total of 8 billion dollars for new private construction in the year equalled the level of the 1920's and exceeded by half the total for 1941. With the higher construction costs of 1946, however, the real volume of activity was far lower than in the 1920's but may have slightly exceeded the total for 1941. Although new private construction constituted only 4 percent of the gross national product for the year, compared with 9 percent in the 1920's, the industry made a good start toward the high post-war level clearly required by the enormous back-log of demand.

Producers' Equipment at High Level

Private expenditures for producers' durable equipment totaled 13 billion dollars in 1946, practically double the 1945 total of 7 billion dollars. The year-end

level of more than 15 billion dollars was at least 50 percent higher than in any previous year.

Most types of equipment participated in this unprecedented rise, including trucks, business passenger cars, most types of machinery and such miscellaneous items as office furniture, store fixtures, and hand tools. Machine tool output, however, was held down by Government surplus sales, and farm machinery by prolonged strikes.

Inventory Accumulation Spurts

Business inventories, which were low in relation to sales at the end of the war, responded to the pressure to make up this deficit by advancing sharply during 1946. During the three postwar quarters through mid-1946, inventory accumulation proceeded at a high rate, though partially obscured by the large transfers of inventories to the Government through liquidation of war contracts. After July 1, inventories accumulated at the most rapid rate on record with the possible exception of a short period just prior to the 1920 break.

Estimates of the extent to which increases in book values of inventories reflect replacement of essentially the same goods at higher prices and the extent to which they represent increased quantities of goods on hand are liable to more than the usual error in this year of violent and selective price changes. The figures that have been arrived at are shown in table 1.

For the year as a whole, the book value increase was 10 billion dollars, of which 3½ billion dollars was estimated to represent price mark-ups and 6½ billion dollars real accumulation. The real increase was at a seasonably adjusted rate of 4 billion dollars in the first half of the year and 9 billion in the second half.

This estimated 9 billion dollar real annual rate in the July to December period constituted one-fourth of private gross capital formation and 5 percent of the entire gross national product. While over-all inventories are still deficient in relation to the expanded rate of current sales, the deficit is being made up rapidly.

Foreign Balance

Net exports of goods and services, excluding unilateral transfers such as "straight" lend-lease and UNRRA for which repayment was not expected, reached a total of 5 billion dollars in 1946. This compares with an average of 1 billion dollars in the 1920's, much smaller figures during the 1930's and negative amounts at the peak of the war effort in 1943 and 1944.

Consumer Expenditures Up 20 Percent

Consumer expenditures for goods and services amounted to 127 billion dollars in the first postwar year, 20 percent above 1945 and 70 percent higher than in 1941. This, the largest component of the gross national product, has now had

an unbroken rise since the recession of 1938. The greater part of this sustained rise represents higher prices, which have risen every year since 1939. The real value of consumer expenditures, however, has increased more than 20 percent over the 5-year period since 1941.

Table 1.—Gross National Product or Expenditures: Annual Totals and Seasonally Adjusted Quarterly Totals at Annual Rates ¹

[Billions of dollars]

Item	1945					1946				
	I	II	III	IV	Total	I	II	III	IV	Total
Gross national product or expenditure.....	205.1	208.2	198.2	185.2	199.2	183.7	190.2	196.6	204.7	194.0
Government expenditures for goods and services.....	96.5	99.8	81.0	57.2	83.6	39.6	36.7	31.3	30.8	34.7
Federal government.....	88.7	92.0	73.1	49.3	75.8	31.1	27.7	21.5	20.3	25.2
War.....	82.9	85.7	66.4	42.6	69.4	23.8	19.2	12.0	10.0	16.2
Nonwar.....	5.8	6.3	6.6	6.7	6.3	7.3	8.6	9.5	10.3	8.9
State and local government.....	7.8	7.8	7.9	8.0	7.9	8.5	9.0	9.8	10.5	9.5
Output available for private use.....	108.6	108.4	117.2	128.0	115.5	144.1	153.5	165.3	173.9	159.3
Private gross capital formation.....	3.6	6.6	11.2	15.0	9.1	23.1	31.4	35.7	37.9	32.1
Construction.....	1.8	2.2	2.8	3.6	2.6	6.5	8.0	8.3	8.8	7.9
Producers' durable equipment ²	5.2	6.1	6.7	8.3	6.6	9.5	12.0	14.0	15.6	12.8
Net change in business inventories.....	-2.5	-7	.3	.8	-6	3.4	4.0	8.6	9.7	6.5
Net exports of goods and services ³	-9	-9	1.4	2.4	.5	3.7	7.4	4.8	3.8	4.9
Consumers' goods and services.....	105.0	101.8	106.0	113.0	106.4	121.0	122.1	129.6	136.0	127.2
Durable goods.....	7.4	7.1	7.4	9.0	7.7	11.7	13.1	15.0	16.7	14.1
Nondurable goods.....	65.0	61.5	65.1	70.6	65.6	75.1	74.0	78.3	81.8	77.3
Services ⁴	32.6	33.2	33.5	33.3	33.1	34.2	35.0	36.3	37.5	35.8

¹ Detail will not necessarily add to total because of rounding. Annual totals are not necessarily the average of the seasonally adjusted quarterly figures.

² Figures for 1945 and 1946 are based on new sources and are not precisely comparable to prior years.

³ Includes net exports and monetary use of gold and silver.

⁴ Includes expenditures of military personnel abroad, in billions of dollars, as follows: 1945: 0.9, 1.2, 1.0, 0.5; 1946: 0.5, 0.4, 0.4, 0.4.

Table 2.—Income Payments by Major Segments: Annual Totals and Seasonally Adjusted Quarterly Totals at Annual Rates ¹

[Billions of dollars]

Item	1945					1946				
	I	II	III	IV	Total	I	II	III	IV	Total
Total income payments to individuals.....	163.7	163.2	158.6	157.0	160.8	156.7	160.6	167.8	173.4	165.1
Total wages and salaries.....	115.1	113.9	108.8	101.7	110.2	98.8	103.0	108.0	109.5	105.2
Private.....	85.2	83.3	78.4	75.8	81.0	78.8	85.3	90.6	93.3	87.4
Government.....	29.8	30.6	30.4	25.8	29.2	20.0	17.7	17.4	16.1	17.9
Entrepreneurial income.....	26.3	25.8	25.1	26.0	25.6	27.6	28.0	30.7	34.9	30.2
Agricultural.....	13.3	13.2	12.2	12.1	12.5	13.0	13.4	15.3	18.4	14.9
Nonagricultural.....	13.0	12.6	12.9	13.9	13.1	14.7	14.6	15.3	16.6	15.3
Interest and net rents.....	11.4	11.7	11.9	12.2	11.8	12.5	12.7	13.3	13.4	13.0
Dividends.....	4.6	4.6	4.6	4.6	4.5	4.7	4.9	5.1	5.3	5.1
Transfer payments ²	5.9	6.7	7.7	12.0	8.1	12.6	11.4	10.2	9.7	11.0
Miscellaneous income payments ³.....	.6	.6	.5	.5	.6	.5	.5	.5	.6	.5

¹ Detail will not necessarily add to totals because of rounding. Annual totals are not necessarily the average of the seasonally adjusted quarterly figures.

² Includes social insurance payments, veterans' benefits, mustering out pay, government contributions to dependents of enlisted personnel.

³ Includes military retirement, private pensions and compensation for injuries.

Table 3.—National Income and Disposition of Income Payments: Annual Totals and Seasonally Adjusted Quarterly Totals at Annual Rates ¹

[Billions of dollars]

Item	1945					1946				
	I	II	III	IV	Total	I	II	III	IV	Total
National income.....	167.6	166.2	158.4	150.7	161.0	152.9	158.5	169.4	177.5	165.0
Income payments to individuals.....	163.7	163.2	158.6	157.0	160.8	156.7	160.6	167.8	173.4	165.1
Less: Personal tax and nontax payments.....	22.1	21.7	20.7	20.1	21.2	18.6	18.7	19.4	19.8	19.1
Federal.....	20.0	19.6	18.6	18.0	19.0	16.4	16.6	17.2	17.7	17.0
State and local.....	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.1
Equals: Disposable income of individuals.....	141.6	141.5	137.9	136.9	139.6	138.1	141.9	148.4	153.6	146.0
Less: Consumer expenditures.....	105.0	101.8	106.0	113.0	106.4	121.0	122.1	129.6	136.0	127.2
Equals: Net savings of individuals.....	36.6	39.7	31.9	23.9	33.1	17.1	19.8	18.8	17.6	18.8

¹ Detail will not necessarily add to totals because of rounding. Annual totals are not necessarily the average of the seasonally adjusted quarterly figures.

In relation to disposable income total consumer expenditures in 1946 were just about at the level corresponding to pre-war experience. Lines of relationship based on the 1929 to 1940 period are shown in chart 2. It will be seen that expenditures for nondurable goods are far above the computed line while durable goods and services are still below.

The "bulge" in expenditures for nondurable goods which began in late 1945 and was accentuated in early 1946 was one of the outstanding features of the reconversion period. The reasons for this sharp increase are familiar to readers of the SURVEY. They include the reduction in pressure to save at the end of the war, the lack of availability of durable goods and services, the abandonment of rationing of most foods and the reequipping of 10 million servicemen returning to civilian life.

Expenditures for consumer durable goods in 1946 made rapid strides upward from the relatively low war-time level of 6 to 7 billion dollars. The fourth quarter figure at a seasonally adjusted annual rate of 17 billion dollars, however, is still about 2 billion dollars below the prewar line of relationship to disposable income.

Service expenditures also moved upward, though at a slower rate. The fourth quarter seasonally adjusted annual rate of 38 billion dollars was far below what might be expected at the prevailing level of income. It was held down by rent control and by a number of shortages. Service expenditures were probably lagging in adjusting to changes in income, as was the case during the 1930's.

National Income Higher

While the gross national product, reviewed in the preceding section, declined, the national income rose from 161 billion dollars in 1945 to 165 billion dollars in 1946.

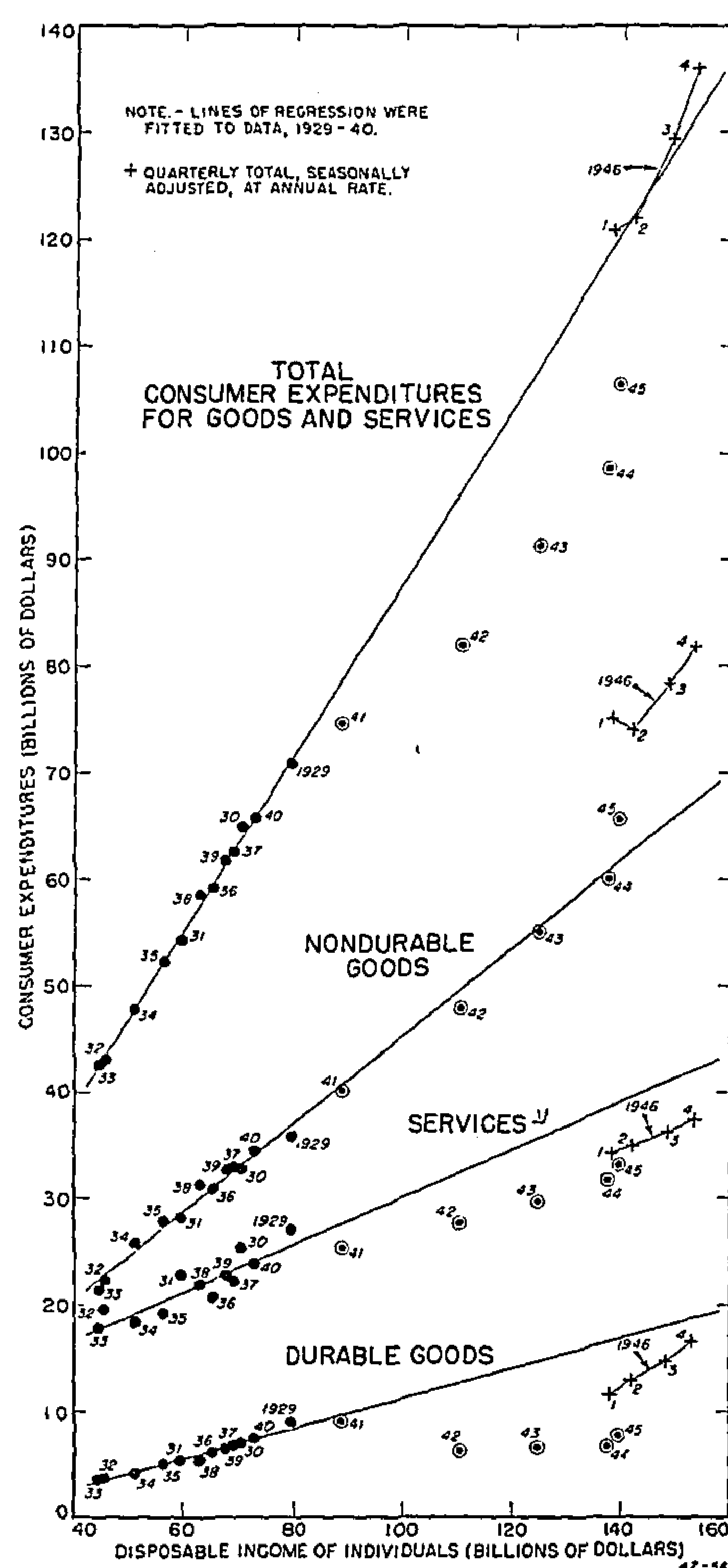
This difference in movement between gross national product, which measures the total value of national production at market prices, and national income,

Table 4.—National Income by Distributive Shares, 1944-46¹

[Billions of dollars]			
Item	1944	1945	1946
Total national income.....	160.7	161.0	165.0
Total compensation of employees.....	116.0	114.5	109.8
Salaries and wages.....	112.8	111.4	106.6
Supplements.....	3.2	3.1	3.3
Net income of proprietors.....	24.1	25.6	30.2
Agricultural.....	11.8	12.5	14.9
Nonagricultural.....	12.3	13.1	15.3
Interest and net rents.....	10.6	11.8	13.0
Net corporate profits.....	9.9	9.0	12.0

¹ Detail will not necessarily add to totals because of rounding.

Chart 2.—Consumer Expenditures Related to Disposable Income



¹ Includes expenditures of military personnel in this country and abroad.

Source of data: U. S. Department of Commerce.

which is a measure of the earnings of capital and labor employed in the productive process, is explained by two factors. The first is the reduction in business taxes, and the second is inventory profits.

The market price of goods and services includes, besides the returns to the factors of production which constitute the national income, business taxes and capital charges to depreciation, depletion, and other reserves. The decline in profits before taxes, plus the elimination of the excess profits tax and the cut in federal corporate income tax rates reduced business taxes from about 28½ billions in 1945 to 25 billions in 1946.

Furthermore, profits as measured in the national income include the substantial gains made in 1946 from the change in the price valuation of inventories, while such windfall gains are excluded from the gross national product.

Distributive Shares

There was some shifting in the relative size of the distributive shares of the national income in 1946. Table 4 show that there were substantial increases in proprietors' incomes and in corporate profits, a smaller rise in interest and rents, and a decline in the compensation of employees. In the main these reflect a shrinkage in the labor force employed and an upward shift in earnings of business enterprises as goods flowed through more normal channels, price lids were lifted, and business taxes lightened.

Employee Compensation Lower

The decline in employees compensation was the result of reduced government pay rolls, reflecting the sharp cut in Government employment—military and civil. Government pay rolls declined from a total above 29 billion dollars in 1945 to nearly 18 billion in 1946. Despite a decline of such magnitude in the government sector, the over-all decrease of wages and salaries amounted to no more than 5 billion dollars for the year. Private pay rolls expanded almost 8 percent in 1946, due to increased employment and higher hourly earnings.

In manufacturing, after the sharp reduction following termination of war contracts, pay rolls stabilized in the first quarter of 1946 at the reduced September 1945 levels, notwithstanding the large number of labor-management disputes which occurred at that time. With the decline of labor-management disputes and the upward movement of wage rates, manufacturing pay rolls rose in each succeeding quarter of 1946.

For 1946 as a whole, however, manufacturing pay rolls were 2 billion dollars lower than in 1945, a year which included two quarters at wartime levels. This was a result of lower average employment, shorter average hours, and the shift in employment from the higher-

Table 5.—Relation of Gross National Product to National Income, 1944-46

[Billions of dollars]			
Item	1944	1945	1946
National income.....	160.7	161.0	165.0
Plus:			
Business tax and nontax liabilities.....	29.7	28.6	25.0
Depreciation and depletion charges.....	8.2	8.0	7.2
Other business reserves.....	.5	.5	.4
Capital outlay charged to current expense.....	.9	1.1	2.0
Inventory revaluation adjustment.....	-.1	(1)	-3.5
Adjustment for discrepancies.....	-2.2	.1	-2.1
Equals: Gross national product or expenditure.....	197.6	199.2	194.0

¹ Less than \$50,000,000.

paying durable goods industries to the lower-paying nondurable goods industries. Wage-rate increases were an offsetting but not fully compensating factor. However, by the fourth quarter, manufacturing pay rolls on an annual-rate basis were 3 percent above the 1945 level, although still considerably below the peak reached in the first quarter of 1944.

In the nonmanufacturing sector, pay rolls continued to expand steadily, and for 1946 as a whole were 19 percent higher than in 1945. These industries were able to expand employment, unhampered by the limitations imposed by the scarce labor market of the war years.

Trade pay rolls increased by the largest absolute amount—almost 4 billion dollars—from 1945 to 1946, as the easing labor market and the high volume of retail sales offered enterprises opportunity and incentive to expand employment. Construction pay rolls mirrored the sharp increases which occurred in employment in this group, and it was generally recognized that only bottlenecks in the supply of construction materials limited the further expansion of employment during the year.

Other Distributive Shares Increase

During the war the economic stabilization program involved the restraint of the upward movement of prices, wage rates, and profits. This program was successful through the war period in its general objectives, for while large increases occurred in all three, the success of the hold-the-line policy after the middle of 1942 was noteworthy in view of the pressures generated by war requirements and the methods of war finance.

Insofar as corporate profits are concerned, the price control mechanism had the effect of restraining profits before taxes to the approximate totals which would have been expected on the basis of the prewar relationship of profits to the level of the gross national product. The wartime excess-profits tax rates served, however, to limit profits after taxes to much less than the usual prewar ratio of profits after taxes to the gross national product or to national income. Thus, in 1943 and 1944 the 24 to 25 billion dollars of annual before-taxes profits yielded about 10 billion dollars of after-tax profits—higher than in any previous year in absolute terms, but a smaller proportion of the gross national product than in other years of high business activity.

With the end of the war in 1945, and the consequent decline in the volume of economic activity, profits before taxes turned downward, but the repeal of the excess profits tax at the end of 1945

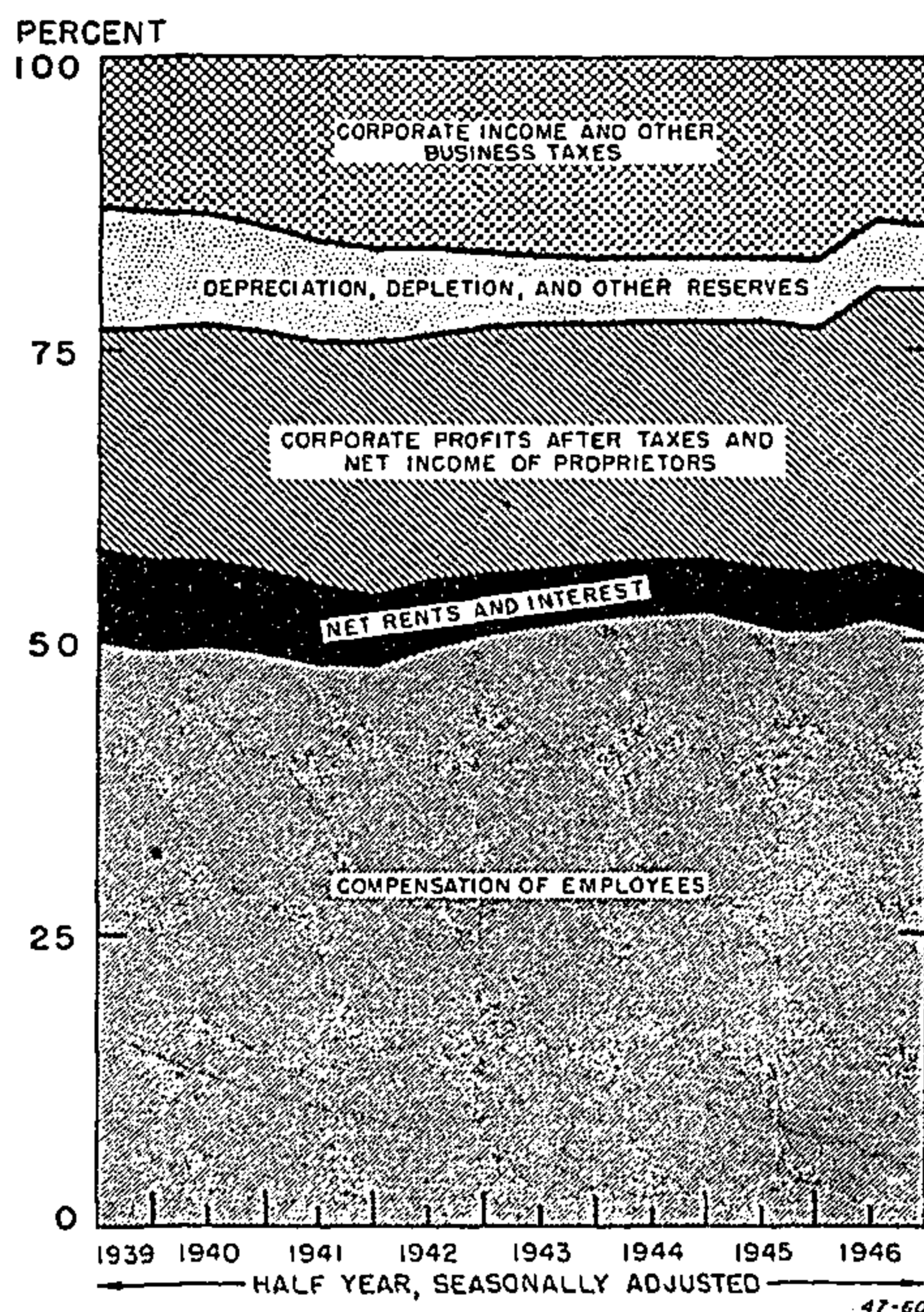
meant that a much higher proportion of before-tax profits were thereafter retained.

The low-point of the reconversion decline occurred in the early part of 1946, and the subsequent rise in the volume of output, plus the gradual easing of price controls and their total elimination in the fourth quarter, was reflected in profits before taxes rising throughout the year. For the year as a whole, corporation profits after taxes were up one-third as compared with 1945.

In the national income estimates of profits, the tax credits allowed by the Government to cushion the impact of reconversion are not included in the year received but rather represent an upward adjustment for earlier years. These credits were nonetheless an important factor in corporate finance during 1946 in the industries primarily affected by reconversion problems, since large sums were available for corporate use at a time when income from the sale of finished products was comparatively low. The loss in Treasury revenue was a contribution towards speeding reconversion and reemployment.

Corporate profits after taxes represented a smaller proportion of the national income in 1946—7.3 percent—than in the late 20's or in 1941, but were far above the 1936-39 average when business operations were considerably below full-employment levels.

Chart 3.—Percentage Distribution of Private Gross National Product¹



¹ Percentage distribution calculated excluding adjustment for inventory revaluation and for discrepancies.

Source of data: U. S. Department of Commerce.

The share of noncorporate business was unusually high, primarily by reason of the level of incomes realized by farmers and distributors. The 30 billion dollar total for 1946 includes the return to the proprietor for his labor, as well as the return on his investment. The increase in the net income of agricultural proprietors was the result of sharply higher prices received for agricultural commodities. Prices received by farmers, even before the demise of price control, rose faster than did those of other commodities. With the relative stability of costs, the net incomes of farmers rose to 14.9 billion dollars, 19 percent above levels attained in 1945.

In the nonagricultural sphere the largest rise occurred in the distributive segment as a consequence of expanded sales and increased profit margins.

Wide Variation in Profit Results

One of the features of the earnings structure in 1946—aside from the comparative performance of corporate and noncorporate business—was the considerable variation in performance among different segments. The variations were more the result of special conditions operating in 1946—a year in which economic relationships were distorted by reconversion from war to peacetime activity—than of any fundamental change in the basic earnings structure of the different industries. In general, the picture had these characteristics:

1. Markedly higher incomes for farms and other unincorporated business.
2. Sharply increased corporate earnings in the distributive trades and some of the service industries.
3. High corporate earnings in most of the manufacturing lines producing nondurable goods, as well as in those durable goods industries where physical reconversion problems were minor.
4. An unusually large volume of inventory profits in the second half of the year. Profits from this source in 1946 were as real as those otherwise yielded, but they are nonetheless temporary. Rapidly rising prices always carry the threat that later developments may cancel inventory profits in whole or part by the reverse of the 1946 situation, i. e., falling prices.

5. Low corporate earnings of the industries in the durable goods fields where the major problems of physical reconversion occurred. As a consequence of the time necessary to reconvert, production of finished output in these industries was low in relation to the input of labor and materials, with adverse effects upon 1946 profits.

6. Low earnings for the railroads where a retroactive wage increase was accompanied by a temporary rate adjustment considerably below the general upward revision of rates effective in January 1947.

The very considerable divergence of trends which are associated with high farm incomes and increased distributive margins in a sellers' market, and low profits associated with a low volume of output of finished goods in the reconversion industries, are temporary phenomena. The large divergence will gradually disappear as production of finished goods is balanced, as the need for foreign food relief lessens, and as competition for the consumer's dollar intensifies. The last-mentioned factor, however, is to be a development of 1947. It did not occur in the final quarter of 1946 when prices were being marked up and margins widened.

Apportionment of Gross National Product

Chart 3 makes clear the relationship of the shares and other charges to the total private gross national product for the past eight years. The data presented in this chart are for the private sector of the economy, payments to the factors of production employed by the Government having been eliminated.

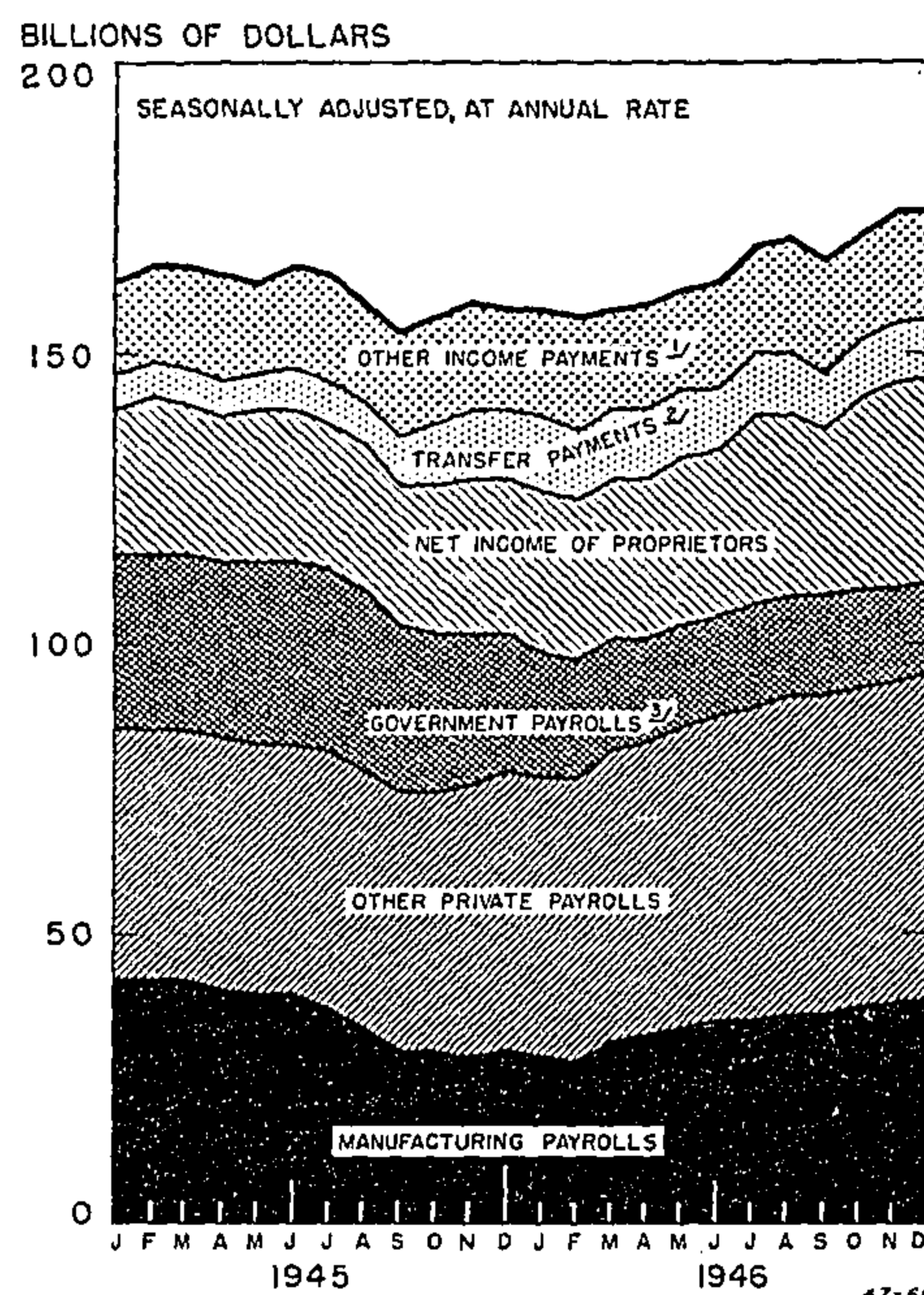
It will be noted that the compensation of employees represented about half of the total in each year, varying only within narrow limits, despite the large increases which occurred in employment and average annual earnings during this period.

Depreciation, depletion, and other reserves were the only charges against sales which declined significantly relative to private output over the period covered by the chart. By the second half of 1943 their share in private gross national product had fallen by almost 50 percent from 1939, and thereafter continued at this reduced level. During the war, with official restrictions against the production of many types of capital goods, resources which in the ordinary course of business would have been replaced and augmented were made to serve a longer period, but the more significant factor was the methods of computing these deductions against a more or less fixed base, uninfluenced—except for new additions—by the upward shift in the price level.

The excess profits tax and increased corporate tax rates raised corporate income and other business taxes in the war years above prewar proportions of sales, but by the first half of 1946 these taxes had fallen almost to prewar proportions.

The decline in depreciation, depletion, and other reserves as a proportion of sales tended to offset the rising propor-

Chart 4.—Income Payments to Individuals



¹ Includes net rents, royalties, dividends, interest, private pensions, compensation payments, and miscellaneous items.

² Major items included are social insurance benefits, the Government's contribution to family allowances paid to dependents of enlisted military personnel, mustering-out payments to discharged servicemen, and veterans' pensions, compensation, and readjustment allowances.

³ Represents pay of Federal, State, and local government employees, and pay of the armed forces in this country and abroad.

Source of data: U. S. Department of Commerce.

tion of corporate and other business taxes over the war years, and served to leave the share of the other factors of production—the net income of proprietors and corporations, net rents, and interest—unchanged during the war. The decline in the share of taxes in 1946, and the reduced proportion of depreciation and depletion as charges against sales, served to increase the share of the above-mentioned three groups in 1946 to the highest proportion of any of the years under consideration.

Income Payments to Individuals

By coincidence, the total flow of income payments to individuals in 1946 approximated the national income in 1946—165 billion dollars. This series covers current income received by individuals from private industry and Government. It differs from national income in that it excludes income accruing to individuals but not received by them (undistributed profits and contributions to social insurance funds), and includes transfer payments which are not rewards for current economic services.

The income payments series is significant for measuring the dollar purchasing power of individuals, since when personal taxes are deducted it provides the total

of the dollars available for expenditure and savings.

Since the estimates of total income payments to individuals include the pay of Federal military and civilian personnel overseas, the increase from 161 to 165 billion dollars between 1945 and 1946 understates the actual increase in income payments within the continental United States. As our overseas forces were withdrawn, payments to individuals outside the United States shrank considerably. The year-to-year increase in income payments received by individuals residing in the continental United States amounted to approximately ten billions—more than double the increase in total income including payments overseas.

Chart 4 shows the components which pushed income payments upward during 1946 despite the large drop in Government and manufacturing pay rolls. It can be seen that the significant elements were nonmanufacturing pay rolls, proprietors' incomes, and transfer payments.

Dividend payments, which are included in the chart in the "other" category, increased about 14 percent over 1945, representing about two-fifths of corporate income. Earnings retained by the corporations which are not, of course, a component of income payments, were the highest of record—in fact, in absolute terms the amount retained for corporate use was as large as total earnings in 1929, when the national income in dollars was just half what it was in 1946. This continuation into the immediate postwar period of the conservative dividend policies adopted during the war was influenced by the large capital expenditures which corporations initiated with the end of the war. These were reviewed in the preceding section.

Transfer payments had expanded sharply after VJ-day as a result of mustering-out payments to discharged servicemen and increased unemployment benefits, including compensation paid to unemployed former servicemen. These payments, which were very important in sustaining consumer incomes in the transition period, reached their peak in the first quarter of 1946 and then declined in succeeding quarters as demobilization of the armed forces tapered off, and compensable unemployment declined. Subsistence payments to veterans attending school and similar payments also expanded sharply in early 1946, but these remained high throughout the year.

By December, total transfer payments had fallen to an annual rate of 9.7 billion dollars from the peak of 13.1 billion reached in January. Even in that month, however, transfer payments were almost four times as large as they had been in 1941, the last prewar year.

Wholesale and Retail Prices

Pressures on the price structure continued unabated in 1946 and, when given free play with the elimination of price controls, established a year-end level of prices sharply higher than that to which they had been restricted in the war years. Sources of the strong demand pressure, as in the previous year, derived from record levels of income payments, accumulated savings carried over from the war years, pent-up business demands for goods and, finally, a large volume of foreign purchases of materials required in relief and reconstruction.

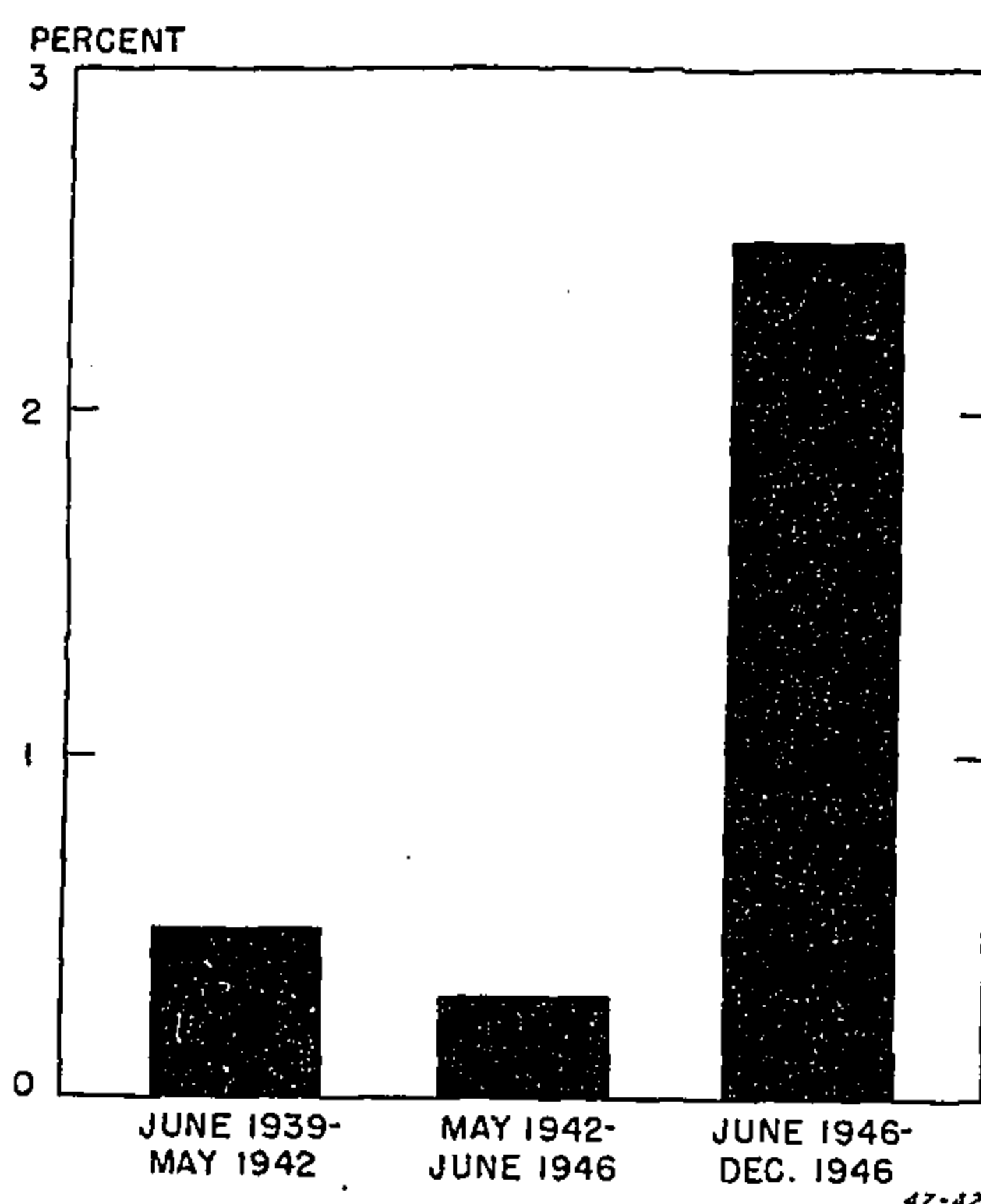
On the supply side, over-all production proceeded on an ascending curve, although output was not yet large enough to satisfy demand in a free market without additional price rises. Under such circumstances, sellers marked up prices of processed goods to cover increased labor and other costs of production and to restore profits to a volume more in line with the historical relationship of profits to sales.

Sharp Increases After Price Decontrol

Price developments during 1946 were divided into two phases. The first was the comparative price stability under price control, with a moderately rising trend in the second quarter. The second was the successive periods of price advances coming in the wake of decontrol actions in the latter half of the year. The increase in primary and wholesale prices in the first 6 months of 1946 as measured by BLS, was limited to 5 percent—largely made necessary by statutory provisions of the escalator type which required the adjustment of textile prices to advancing raw cotton prices, by the removal of production controls which

required OPA to grant price increases in order to achieve desirable production patterns, and by the establishment of the principle enunciated in Executive Order 9697 of February 14 of permitting "pattern" wage increases even though prices had to be advanced as a result.

Chart 5.—Monthly Rate of Change in Consumers' Price Index



Sources: Basic data, U. S. Department of Labor; computations, U. S. Department of Commerce.

A 10 percent spurt in wholesale prices resulted from the July hiatus in price control, to be followed by an additional 14 percent rise by the end of the year. With all controls off and subsidies eliminated, retail prices responded in similar fashion, registering a year-to-year advance of almost one-fifth, with the BLS Consumers' Price Index surpassing the June 1920 peak. The elimination of subsidies accounted for 3 percent of this advance.

The rapidity of the recent rise is revealed by Chart 5 which shows the monthly rate of increase for the period prior to the effective date of the General Price Regulation, from then to June, 1946, and the final six months of last year.

Prices Rise Faster Than in 1919-20

Price movements during World War II and afterwards reflect the relative stability during the war period (in contrast to World War I) and a sharp increase in the rate of advance in the postwar period after the removal of price controls which was greater than during the similar period after World War I. As shown in

Chart 6, the increase of wholesale prices during World War II amounted to 15 percent as compared with a 27 percent advance during World War I. However, in the two postwar periods, the greater inflationary forces of the second period, after being freed from controls, resulted in a greater price increase than during the earlier period as commodities made long deferred adjustments to free market conditions. The total price level rise since the beginning of World War II has been 78 percent compared to the 140 percent increase from August 1914 to the peak in May 1920.

During the first half of 1946 the largest relative increase among the BLS wholesale commodity price indexes was made by building material prices, where the OPA granted increases averaging 10 percent to overcome production impediments and to conform to the President's wage-price policy. Smaller rises occurred in the prices of textiles and metal and metal products, which rose 8 percent and 6 percent, respectively. In the metals group, the rise was largely due to higher prices granted after the wage increases were negotiated in the steel industry. The over-all index of industrial prices rose only 5 percent in the first half of the year, while farm and food prices were limited to a 6 percent advance.

Commodity prices continued to rise during the second half of 1946—sporadically, at times, because of changes in the decontrol program—with farm and food prices leading the advance of all major groups until the general decontrol order of November, when the impetus to further increases was shifted to industrial prices. By the end of December 1946, the average of industrial prices had risen 18 percent, as compared with 5 percent in the first half, while farm prices had ad-

Table 6.—Percentage Changes in Wholesale Price Indexes

Commodity group	Dec. 29, 1945-June 29, 1946	June 29, 1946-Dec. 28, 1946	Dec. 29, 1945-Dec. 28, 1946
All commodities.....	5.3	23.9	30.5
Farm products	5.7	19.5	26.4
Foods	3.6	40.3	45.3
All commodities other than farm and food	4.8	17.6	23.2
Hides and leather..	3.7	38.4	43.4
Textiles	7.9	22.9	32.5
Fuel and lighting...	2.6	10.9	13.7
Metals and metal products ¹	6.0	20.0	27.2
Building materials..	9.6	18.6	30.0
Chemicals and allied products .....	.8	30.1	31.2
Housefurnishings...	4.0	8.9	13.3
Miscellaneous	3.1	10.0	13.4

¹ See note on p. S-4 regarding the introduction of current motor vehicle prices into the index.

Source: U. S. Department of Labor.

Table 7.—Percentage Changes in Consumers' Price Index

	June 1939-May 1942	May 1942-June 1946	June 1946-December 1946
All items	17.6	14.9	15.0
Food	29.9	19.7	27.7
Clothing	25.8	24.6	12.3
Rent	5.4	-1.3	.....
Fuel, electricity, and ice	7.6	5.3	4.5
Housefurnishings...	21.5	27.7	13.5
Miscellaneous ¹	10.5	15.3	6.4

¹ Includes cost of transportation, medical and personal care, recreation, and household operations.

Source: U. S. Department of Labor.

vanced $3\frac{1}{2}$ times as much and food prices ten times as much, as in the first six months. (See table 6.)

Primary Materials Take Price Lead

Because of price control, the characteristic phenomenon of a greater amplitude of movement in raw materials as compared with other prices at boom periods of business had been dampened. Upon the removal of controls, prices of primary materials in the industrial area reasserted their volatility, with raw and semi-manufactured nonfarm materials ascending 41 percent during the year, as compared with a rise of 25 percent in all manufactured goods, excluding foods. Some of the more notable advances in raw materials prices since decontrol were the increases of one-third in hide and skin prices, one-fourth in nonferrous metal prices, and one-fifth in lumber prices. The agricultural segment of the economy responded quickly under free pricing, with farm and food prices increasing 20 and 40 percent, respectively, from the last week in June 1946 to the year-end week, as compared with an 18-percent rise in industrial prices. Part of the increase of food prices is attributable to the removal of subsidies. There was some evidence toward the end of the year that the upward movement of in-

dustrial prices was reducing the unusually wide spread between these prices and farm and food prices which had developed after June 1946. As suggested in the extended discussion of the relationship of these prices in the December 1946 issue, farm and food prices in the last two months of the year were receding from earlier peaks while industrial prices were edging up relative to the former prices.

Prices Outstrip Cost Rises

Price advances in 1946 stemmed in major part from the high level of industrial and consumer demand rather than from the cost side. In general, these price advances more than compensated for the increases in wage rates and other costs. This is confirmed by the very sharp rise in farm income and the markedly improved profit performance of both corporate and unincorporated business.

Consumer Costs Exceed Previous Record

Prices paid by consumers were up sharply in 1946, with the BLS consumers' price index topping the World War I inflation peak in the closing months of the year. The 18-percent advance during the year was the largest for any recorded 12-month period. As in the case of

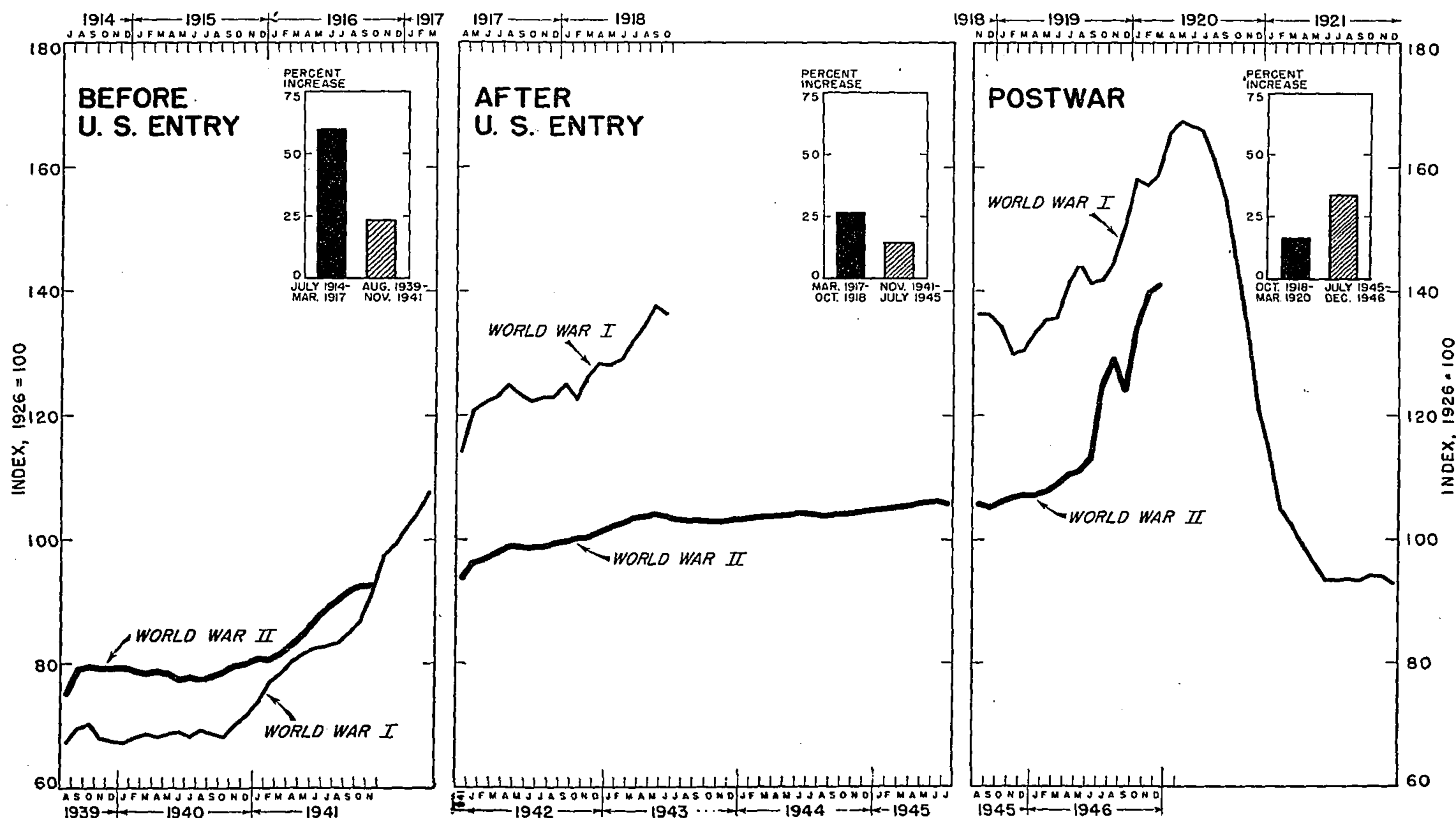
wholesale prices, most of the increase occurred in the last half of the year in response to successive decontrol measures; the first 6 months' increase accounted for only 3 percentage points out of the 18 percent rise.

As shown in chart 7, food prices were responsible for almost four-fifths of the increase in the total index. These prices rose one-third during the year, with almost all of the advance occurring in the second half. In all cases, the rise in food prices more than offset the amount of subsidy payments made under the programs in effect before June 30, 1946. The table below compares the price increases for selected commodities from June to December 1946 with the amount of subsidies formerly paid.

	Price increase, June-December 1946	Subsidy rate
	Cents	Cents
Butter, lb.....	30.5	13.2
Coffee, lb.....	13.4	4.5
Milk, qt.....	3.9	1.3
Round steak, lb.....	22.6	11.7
Veal cutlet, lb.....	24.5	6.0
Pork chop, lb.....	20.2	6.0
Cheese, lb.....	24.5	7.0
Canned green beans, No. 2 can.....	2.1	1.2
Canned tomatoes, No. 2 can.....	8.6	2.0

Source: Price increases from BLS; subsidy rate from OPA.

Chart 6.—Wholesale Prices in Two War and Postwar Periods



Source of data: U. S. Department of Labor

Although most foods scored advances during the year, meat prices were the primary factor in the increase in food prices. Meats had been the object of considerable pressure for decontrol under the plea that removal of ceilings would result in ample supplies at moderate price levels. In the initial test period of decontrol in July 1946, meat prices jumped 38 percent over June, of which 21 percent was due to the elimination of subsidies. The curtailment of livestock shipments which resulted soon after recontrol in early September led to the decision to remove ceilings in mid-October. Thereafter, meat prices climbed sharply but then fell somewhat, although at the end of the year they were nearly two-thirds above June price ceilings.

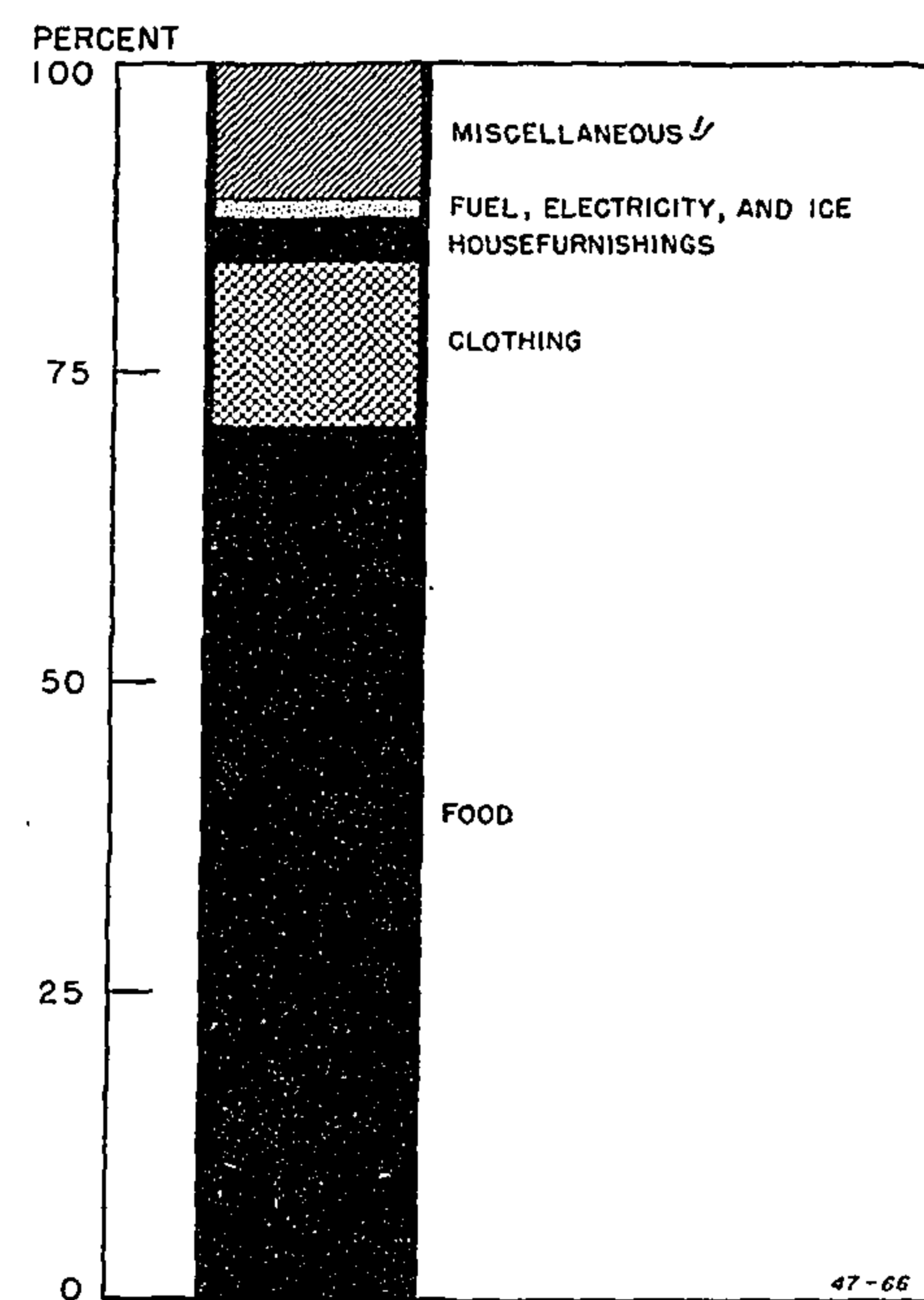
Although the higher price level brought out larger meat supplies than the amounts available during the second quarter of the year, when withholding in anticipation of higher prices was widespread, estimates of per capita meat consumption prepared by the Department of Agriculture indicate little improvement in the third and last quarters of 1946 as compared with similar periods in 1945. The end of price controls did see the regularization of the livestock and meat business at, of course, considerable

cost to the consumer and considerable profit to farmers and others. Practically all meats were freely available in markets at the year end with the higher prices acting to dampen demand and market mechanisms again regulating the flow from range to table.

Consumer prices for clothing and housefurnishings also scored large increases in 1946, advancing 18 percent and 19 percent, respectively. (See chart 7.) For these price segments, greater gains were made under price control than after decontrol, mainly because of the escalator requirement of the law and the necessity of affording production incentives.

In addition to the utilities, rents continued to be the major stable element in living costs in 1946, with continued control of residential rents permitting very limited increases. The slight rise in these costs—which resulted from various adjustments made by OPA—does not measure increased expenditures incurred by purchases of dwellings by persons unable to find rental units, higher rents in new units, and such maintenance expenditures as have been shifted from landlord to tenant. The rent control has nonetheless been a very substantial boon to tenants, especially those who “stayed put” during and since the war.

Chart 7.—Percentage Distribution of Increase in Consumers' Price Index, December 1946 from December 1945



¹ Includes costs of transportation, medical and personal care, recreation, and household operation.

Sources: Basic data, U. S. Department of Labor; computations, U. S. Department of Commerce.

Labor Force and Employment

The major readjustments from wartime conditions of supply of and demand for manpower were completed well before the end of 1946. The accelerated contraction of total available supply of labor (including armed services) which featured the closing months of 1945 was halted by the middle of 1946. The demobilization of the armed services was largely completed, and most of the discharged veterans had found their peacetime occupations or had withdrawn from the labor force to attend school.

Expanding demand for civilian labor was evident throughout the greater part of the year. This not only greatly facilitated the unprecedentedly rapid absorption of the huge wartime military forces into civilian jobs but, after early postwar difficulties, resulted in a reduction in unemployment. Expanding civilian employment more than offset the reduction in overtime so that by the end of 1946 total man-hours of civilian employment were above the mid-1945 rate.

Total Labor Force Expands

From July 1945, to the beginning of 1946 there was an abrupt drop of 8 million in the total labor force, i. e., the group of people who either held or sought jobs, including the armed forces in the former category. (See table 8.) About 2 million of the drop-outs were veterans; an undetermined number were students and others who normally desire work only in summer; and the rest were war workers, people drawn into the labor force during the war who had not previously been part of the regular labor supply.

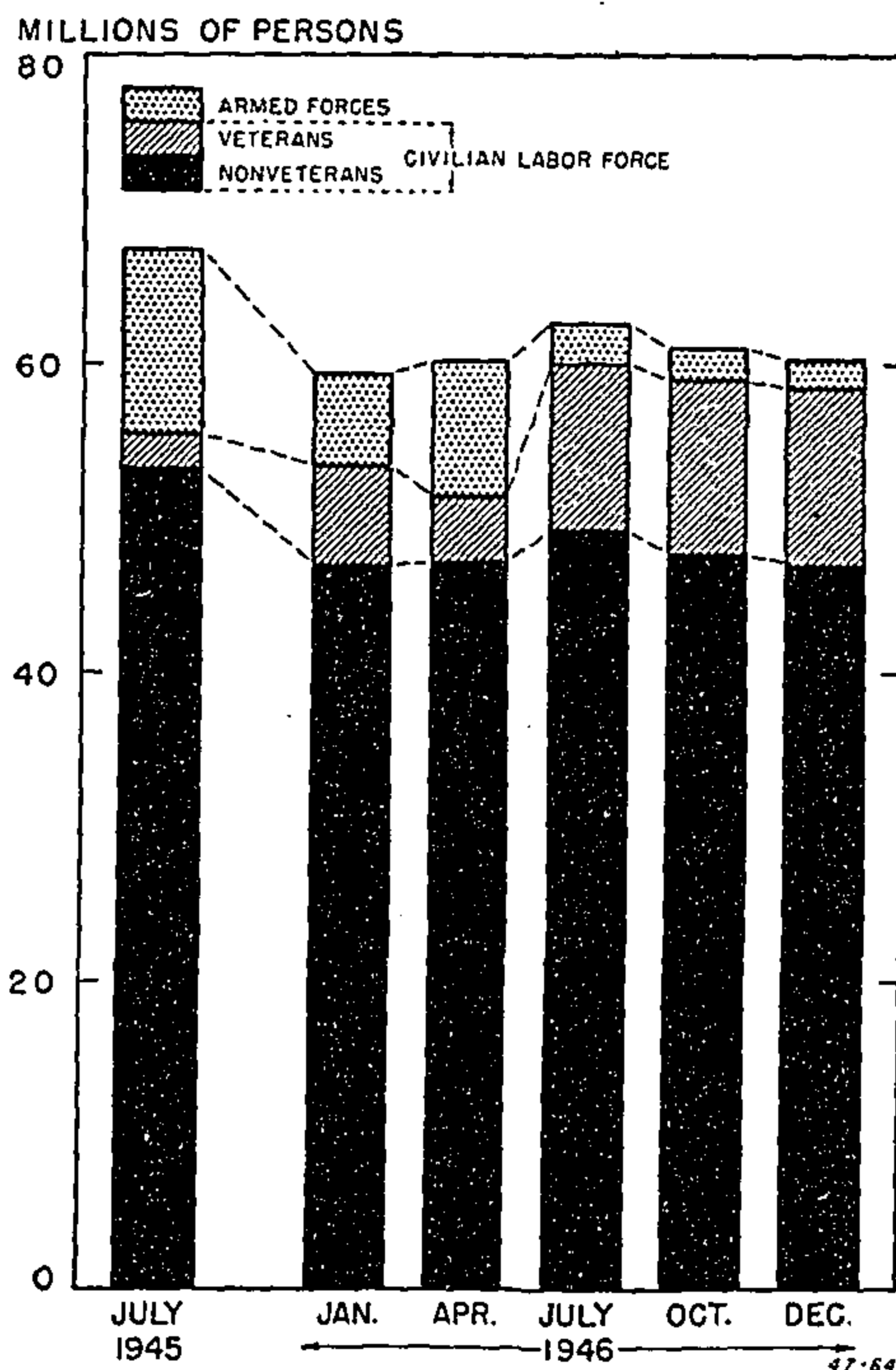
In addition to the normal seasonal bulge, there was during 1946 an increase of roughly 1 million in the total labor force. The small but steady decrease in the number of veterans resting added $\frac{1}{2}$ to $\frac{3}{4}$ million. There were some further withdrawals of war workers in the early months of the year but for the year as a whole this was more than offset by the normal growth in population of

working age. These changes are shown in chart 8.

It will be recalled that the influx into the labor market during the early war years of people previously outside it was sufficiently large to keep the civilian labor force substantially the same in size despite the mobilization of a 12-million man army. There was much discussion during the war as to how much of this influx was a purely wartime phenomenon and how much was due to a more adequate demand for labor.

The experience of 1946 throws some light on this question. It suggests that there were some further withdrawals during 1946 but that they tapered to small proportions, and that most of the remaining war workers are likely to stay on as long as economic conditions are favorable. At the year's end, there were in the labor force between 1 and 1.5 million persons more than would have been expected on the basis of prewar trends.

Chart 8.—Total Labor Force



Source of data: U. S. Department of Commerce.

These conclusions are subject to two qualifications. The data are not sufficiently accurate in detail so that much significance can be attached to small changes. Neither is there the basis for accurate calculation as to just how much of the movement is due to normal seasonal variation.

Veterans Augment Civilian Labor Force

The heavy nonveteran withdrawals from the civilian labor market in the months following VJ-day were largely offset by the quick transfer of former military personnel to civilian life. The net decline of about 2 million in the civilian labor force between July 1945 and January 1946, as shown in chart 8, largely reflected the seasonal drop in labor force participation in agriculture. The total 1946 addition to the civilian labor force from newly discharged servicemen amounted to about 6 million.

Civilian Employment Rises

The quick cancellation of war contracts following VJ-day caused an abrupt drop of nearly 2 million in employment in the durable goods manufacturing industries where most of the production of war materials was concentrated. By the spring of 1946, these industries had worked out the worst of their reconversion difficulties and their employment entered a period of slow but steady increase which by the year-end had brought it half-way back to the July 1945 level.

Almost as quickly as discharged war workers and veterans became available,

nondurable goods manufacturing industries and nonmanufacturing lines, all of which had difficulty securing help during the war, entered upon a steady expansion which carried total civilian employment above its mid-1945 level.

The greatest single gain was 1.1 million in nonagricultural self-employment, an area where employment was sharply curtailed during the war. Aside from these self-employed, who were largely in the trade and service fields, the major increases in employment were 900,000 in trade, 800,000 in nondurable manufactures, 400,000 in construction, and 300,000 in services, but all major lines of activity participated.

As indicated by chart 9, the decline of employment in manufacturing and the rise in other lines had by March 1946, partially restored the prewar industrial distribution of manpower which had been distorted by the needs of war production. Since the spring there have been no further changes of significance.

The 5 percent drop in agricultural employment reflected a long-term trend toward rising productivity and falling employment which was accelerated in recent years by rapid mechanization and by the strong demand for nonfarm labor. The relative drop in agricultural employment about offsets the higher manufacturing level leaving other fields nearly their prewar shares of labor. Trade and service employment is below the proportion expected to prevail when normal distribution is fully restored.

Work Week Stable in 1946

The use of manpower resources is a function not only of the number of workers employed but also of the length of the working schedule. Since the major cut-backs from the long work week of the war period had been completed by the end of 1945, there was little further variation in 1946.

Manufacturing industries, mainly the durable manufactures, were particularly affected by the cut in the wartime work week, as shown in the following estimates of average hours worked per week:

	1939	Monthly averages		
		1945		1946
		1st quarter	4th quarter	4th quarter
All manufacturing...	37.7	45.4	41.4	40.5
Durable goods.....	38.0	46.8	41.4	40.5
Nondurable goods....	37.4	43.4	41.4	40.5

The lower monthly average in late 1946 as compared with the last quarter of 1945 was a result of the cut in hours in the early months of 1946. The average hours worked in late 1946 was nearly 3 hours above 1939, an increase

which reflects, in part, the exceptionally strong demand for labor in 1946 since an average of this length means a considerable amount of scheduled overtime.

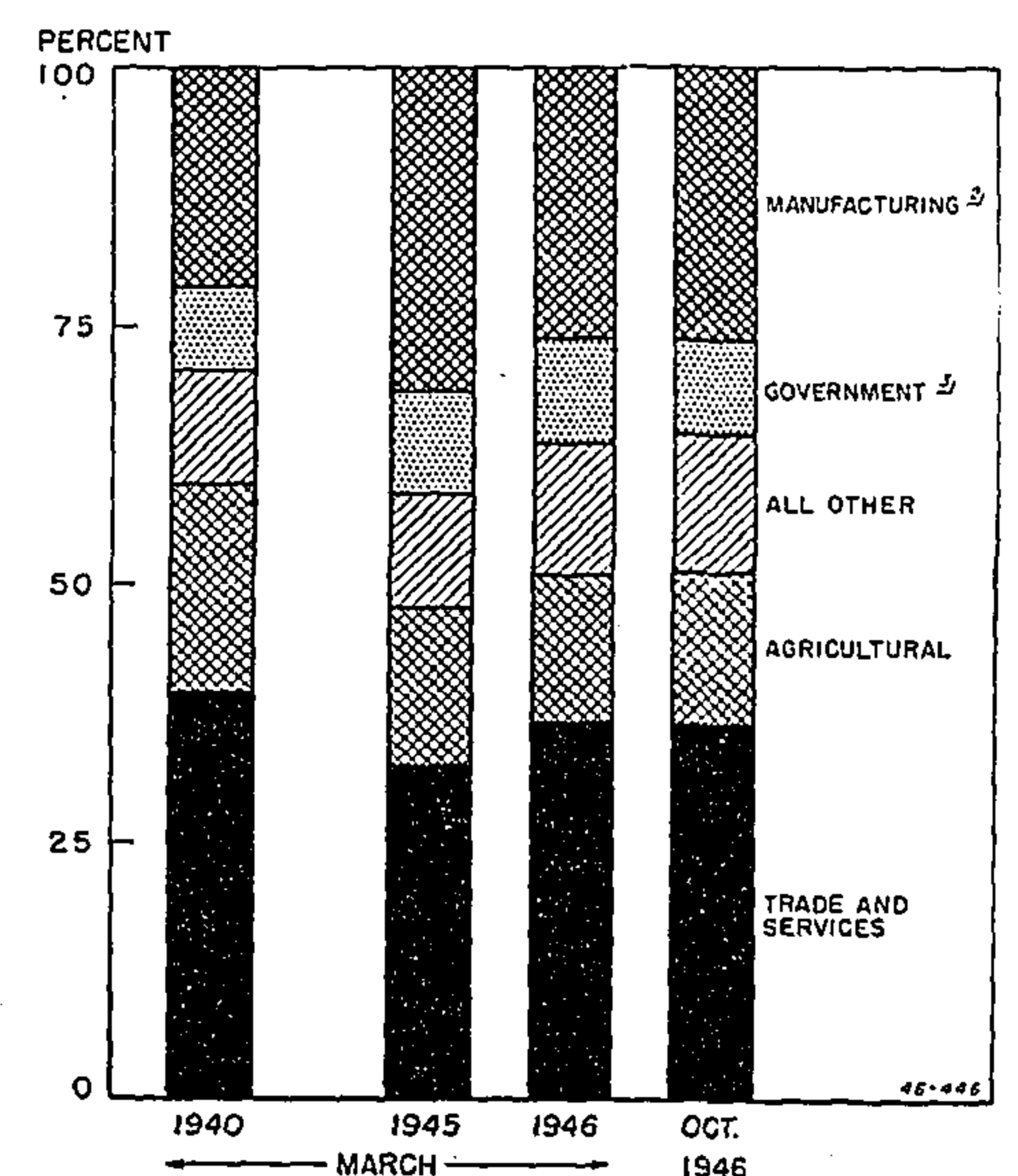
More Man-Hours Than in Mid-1945

The rising trend of civilian employment throughout most of 1946, combined with an essentially stable work week brought total manpower utilization to a point exceeding labor use just before the war ended. Rough estimates indicate that total civilian man-hours worked had dropped about 10 percent from VJ-day to February 1946, but by the end of 1946 they were a little higher than in mid-1945.

Divergent Changes in Productivity

Man-hours are translated into output with varying degrees of effectiveness from industry to industry and overtime. The war brought quick, diverse changes and the peace has been no less capricious. It is impossible to arrive at a meaningful estimate of the over-all change in productivity from 1945 to 1946. This would involve a comparison of the number of units of product with the number of man-hours required to produce them at the two dates. Since mid-1945 so many industries have changed to different products, e. g., airplanes to automobiles, that the figures would not be significant.

A further difficulty is that changes in productivity where they can be measured

Chart 9.—Percentage Distribution of Employed Civilians, by Industrial Groups¹

¹ Data represent all employed persons 14 years of age and over (including proprietors, self-employed persons, and domestic servants).

² Includes Government-operated navy yards and manufacturing arsenals.

³ Includes Federal, State, and local governments. Government-operated navy yards and manufacturing arsenals, and Federal force-account construction are excluded.

Source of data: U. S. Department of Commerce estimates, based, in part, upon data of U. S. Department of Labor.

have varied all the way from substantial gains in some industries to equally impressive declines in others. Such extreme variability would rob any average of significance. As illustrations of the sort of influences which account for this variability two factors which may have influenced a number of industries can be cited.

First, the level of activity has risen substantially in many areas since the end of the war, as, for example, in the cement industry. This factor spread the hours of the overhead workers and made possible more continuous operation, thereby increasing output per man-hour by about 20 percent. Conversely, some industries whose level of activity has declined have sustained a drop in productivity.

Secondly, the flow of materials has been irregular in many instances. In the mass production industries where the whole productive process is highly synchronized this factor has, in a number of cases, reduced production more than in proportion to man-hours, thereby lowering productivity. These and many other influences have affected output per man-hour in the industries which converted to different products during the war or which sustained significant changes in volume. The diversity of influences makes it impossible to generalize about the result.

However, the nondurable goods industries are a more homogeneous group, less influenced by wartime and postwar changes. The Bureau of Labor Statistics estimates that productivity in a group of twenty such industries was 4 to 5 percent higher on the average in the third quarter of 1946 than a year earlier. This is nearly twice the average annual prewar rate of increase for all industries. In a number of instances these gains must be offset against wartime losses and therefore they do not necessarily imply a peak level of productivity.

High Manpower Utilization Maintained

The cessation of huge wartime demand for labor was followed by an increase

Table 8.—Labor Force, Employment and Unemployment ¹

[Millions of persons]

	1945		1946				
	July	October	January	April	July	October	December
Total labor force.....	67.5	63.8	59.5	60.3	62.8	61.2	60.3
Armed forces.....	12.1	10.6	6.2	3.9	2.7	2.2	1.9
Civilian labor force.....	55.4	53.2	53.3	56.5	60.1	59.0	58.4
Employed.....	54.4	51.6	51.0	54.1	57.8	57.0	56.3
Nonagricultural.....	44.5	42.8	44.3	46.0	47.9	48.4	49.1
Agricultural.....	9.9	8.8	6.7	8.2	10.0	8.6	7.2
Unemployed.....	1.0	1.6	2.3	2.3	2.3	2.0	2.1

¹ Detail will not necessarily add to total because of rounding.

Source: U. S. Department of Commerce.

Table 9.—Manufacturing Employment by Industrial Groups ¹

Industrial group	July 1940		July 1945		July 1946	
	Number (thousands)	Percent	Number (thousands)	Percent	Number (thousands)	Percent
Total.....	8,445	100.0	12,459	100.0	11,554	100.0
Iron and steel.....	1,105	13.2	1,555	12.5	1,390	12.0
Electrical machinery.....	295	3.5	659	5.3	507	4.4
Machinery except electrical.....	619	7.3	1,105	8.9	1,027	8.9
Transportation equipment.....	267	3.2	1,577	12.7	459	4.0
Automobiles.....	342	4.0	601	4.8	609	6.0
Nonferrous metals.....	250	3.0	384	3.1	378	3.3
Lumber and timber.....	433	5.1	522	4.2	603	5.2
Furniture.....	328	3.9	334	2.7	376	3.3
Stone, clay, and glass.....	307	3.6	317	2.5	390	3.4
Textile-mill products.....	1,072	12.7	1,051	8.4	1,183	10.2
Apparel.....	709	8.4	869	7.0	1,001	8.7
Leather.....	332	3.9	313	2.5	355	3.1
Food.....	902	10.7	1,089	8.7	1,102	9.5
Tobacco.....	90	1.1	78	.6	85	.7
Paper.....	278	3.3	309	2.5	361	3.1
Printing.....	324	3.8	317	2.5	383	3.3
Chemicals.....	302	3.6	643	5.2	472	4.1
Petroleum and coal.....	113	1.3	136	1.1	151	1.3
Rubber.....	120	1.4	194	1.6	218	1.9
Miscellaneous.....	257	3.0	406	3.3	414	3.6

¹ Classification is on a prewar product rather than on a current product basis.

Source: Bureau of Labor Statistics.

of almost 2 million unemployed from the low level of 800 thousand on VJ-day to 2.7 million in March 1946. As reconversion problems were largely surmounted by that time, the number of people out of work was slowly reduced until by year end, unemployment, at 2.1 million, was only slightly above that of the year before. These totals refer to the number of people out of jobs and actively seeking work. There were, in addition, approximately 1.5 million veterans neither in school, at work, nor seeking

work in March 1946. Some of these veterans were disabled and unable to work. The majority, however, consisted of recently discharged servicemen.

While the absolute amount of unemployment was small and declining through most of 1946, there was a progressive change in its character indicating a rise in the number of hardship cases. In July 1945 only 28 percent of the unemployed had been out of work two months or more; by the end of 1946 51 percent fell in this category.

Manufacturing Output

The aggregate output of manufactured goods was considerably lower in 1946 than in 1945 though it was higher than in 1941 by from 5 to 10 percent.

Among the much publicized brakes upon productive activity were the technical and management problems inherent in the conversion to peacetime production—problems which were overcome

in some industries during the first half of 1946, but which in others hampered output throughout the year. Work stoppages, particularly in the durable goods industries early in the year and the two cessations in coal production, not only brought production to a standstill in the immediately affected industries but retarded activity in related industries.

The lack of certain types of materials further hampered the completion of a variety of products. Fundamentally, the problem was one of the time involved in resuming large-scale output where the facilities had previously been adapted to war work, and balancing the flow of materials and component parts throughout the mass production industries.

The sharp decline in manufacturing output following the end of the Japanese war was not halted until the end of the first quarter of 1946. In the second half of the year, production moved upward. The postwar decline of output of the durable group continued with sufficient intensity in the first quarter of 1946 to offset the rise in output of the nondurable goods industries. Thereafter, production of the durable goods group swung sharply upward. In contrast, the production of the nondurable goods industries did not show any particular change in the last half of the year from the level of the first half. The comparative changes in these broad groups in 1945 and 1946 are shown below:

Manufacturing Production

[Seasonally adjusted indexes, 1935-39=100]

	Total manufactures	Durable manufactures	Nondurable manufactures
1945:			
1st half.....	246	334	175
2d half.....	183	215	158
Year.....	214	274	166
1946:			
1st half.....	168	174	164
2d half.....	185	209	166
Year.....	177	192	164

* Preliminary.

Source: Board of Governors of the Federal Reserve System.

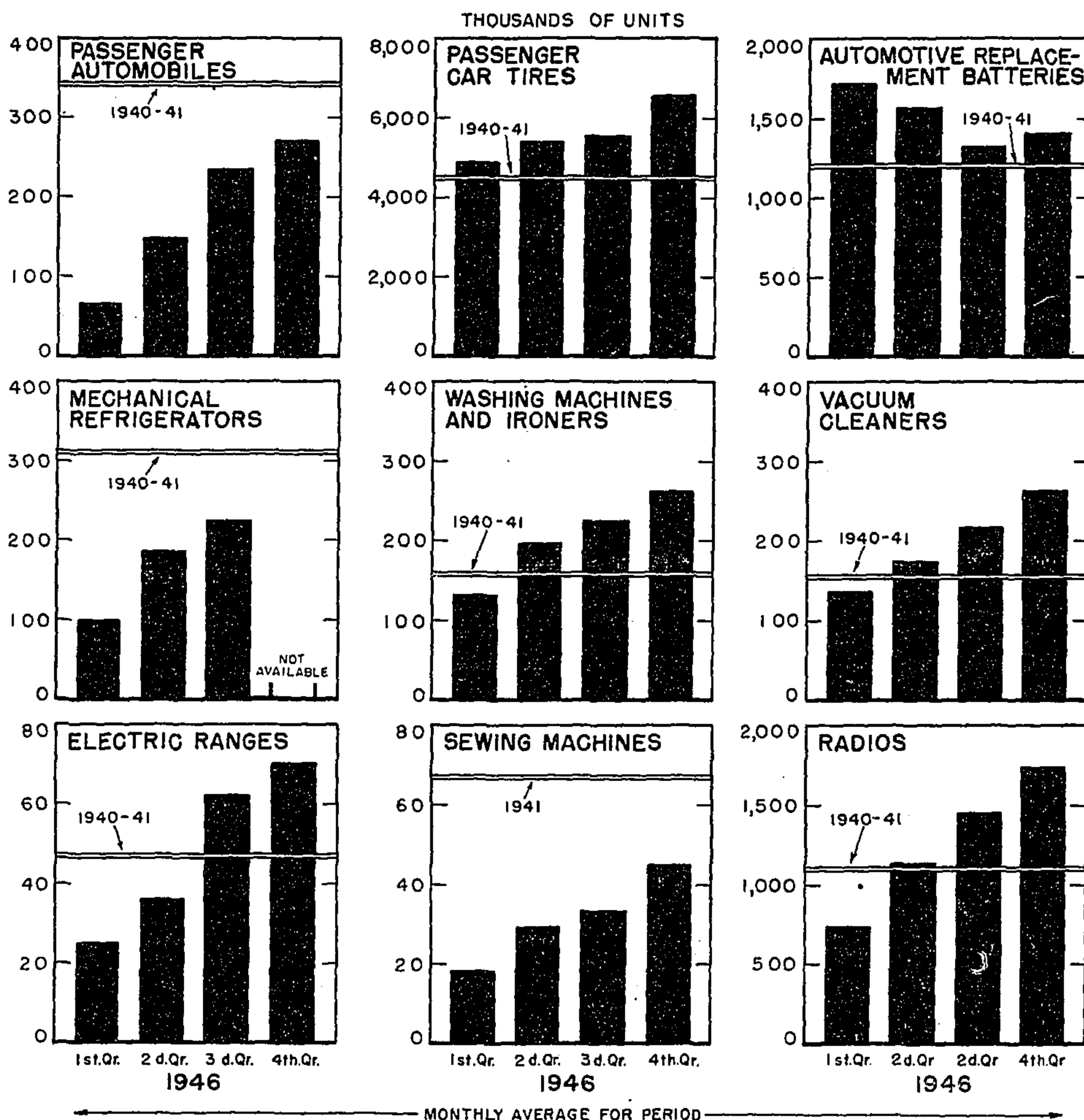
Passenger Car Output Gaining

United States production of automobiles in 1946 totaled 2.2 million units, nearly 50 percent below the 1940-41 level. Nevertheless, the year was one of rapid progress. Assemblies of passenger cars advanced sharply from quarter to quarter, increasing from a monthly average of 67,000 units in the first quarter to 270,000 units in the fourth quarter. Despite this sizable gain, output in the final quarter which was at an annual rate of 3,200,000 cars was still about 20 percent below the prewar volume.

In contrast, truck production expanded much more rapidly and exceeded the prewar rate as early as April 1946. Total output of 940,000 units was only 10 percent below 1941 when about one-fifth of production represented military vehicles. While the United States output of cars and trucks for 1946 totaled 3.1 million units, the weekly average production during the first three weeks in December was at an annual rate of close to 5 million units.

Production of passenger car tires and automobile replacement batteries was already above the prewar rate when the year began; the former continued its upward postwar trend while the latter due to the tight lead supply situation moved

Chart 10.—Output of Consumer Durable Goods ¹



¹Data represent production for batteries, tires, and automobiles, and shipments for all other products, except the base-period data for automobiles represent factory sales. The base period is the calendar year 1941 for sewing machines and the fiscal year 1940-41 for all other products.

Sources: U. S. Department of Commerce and Civilian Production Administration, except data for batteries and tires, which are from Association of American Battery Manufacturers, Inc., and Rubber Manufacturers Association, Inc., respectively.

in the opposite direction. The production performance of the passenger tire industry was particularly impressive with output in the fourth quarter running at a rate of close to 80 million tires, an all-time high nearly 50 percent above the 1940-41 average.

Progress in Reconversion Industries

The extent to which large scale production of nine important consumer items was achieved in 1946 is illustrated in chart 10. For comparative purposes the 1940-41 fiscal year monthly average output is shown which in general represents either the peak or near-peak prewar rate of production. It will be seen that output moved progressively higher in each quarter, the fourth quarter rates of production showing considerable deviation as compared with the base period rate. Moreover, output in 1946 for five of the nine items shown was higher than in any previous year, though in the case

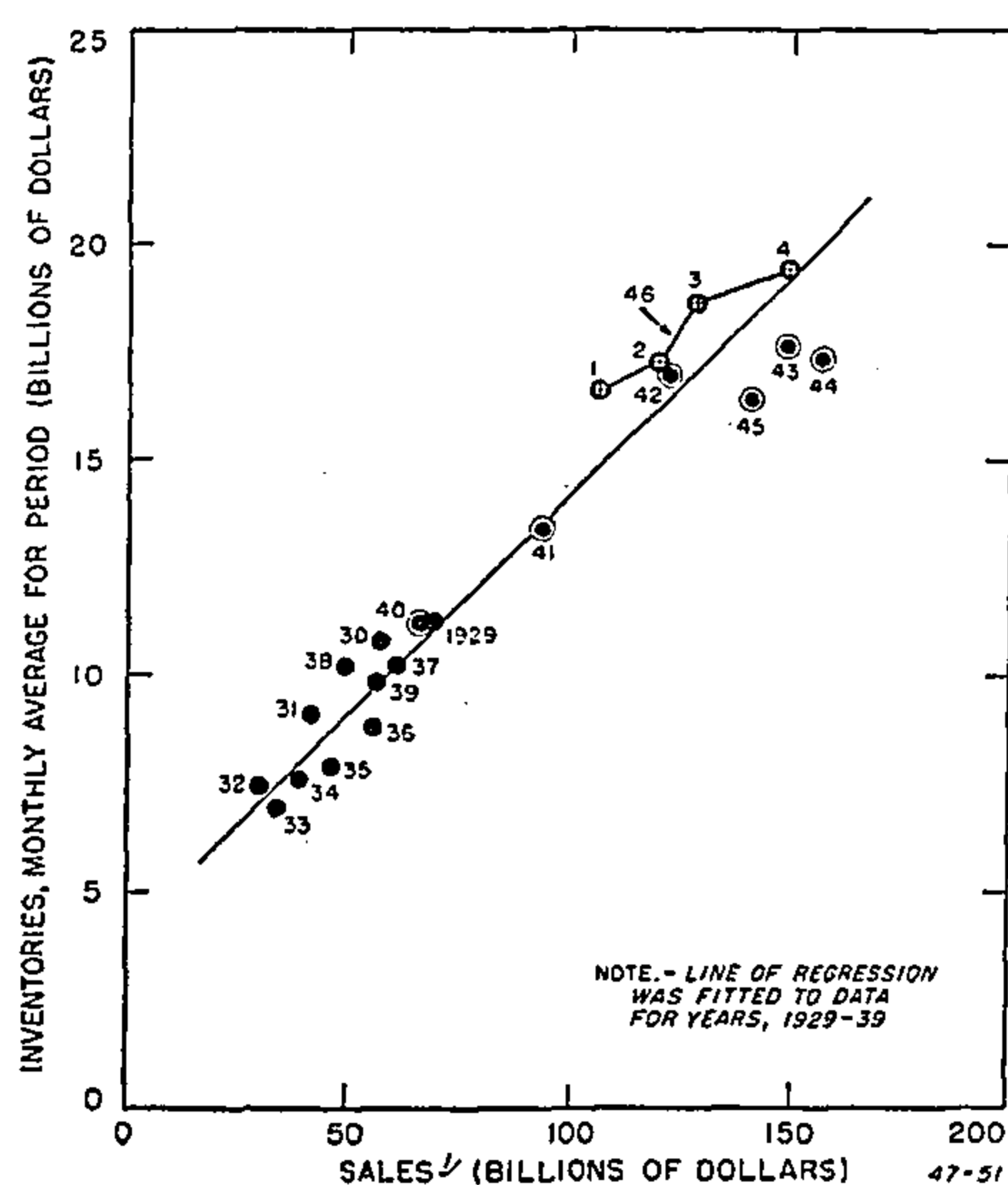
of radios the comparison is influenced by the large number of small sets produced in 1946. As a matter of fact, a feature of the year was the limited variety of choice offered consumers.

The recovery to the prewar volume was more rapid in some lines than in others. For example, among the six household appliances shown in the chart, washing machines, vacuum cleaners, and radios exceeded the 1940-41 level as early as the second quarter, followed by electric ranges in the third quarter. In contrast, however, refrigerators and sewing machines failed to hit the mark. In the case of sewing machines it was still about one-third below the prewar rate.

Manufacturers' Inventories

The book-value of inventories held by manufacturers increased 3.8 billion dollars during 1946 to an estimated total of 20.2 billion dollars as of December 31. This accumulation was primarily

Chart 11.—Inventories Related to Sales, All Manufacturing Industries



¹ Data are totals for 1929-45, and are quarterly totals, at annual rate, for 1946.

Source of data: U. S. Department of Commerce.

actuated by the necessity of replenishing depleted stocks all the way from the manufacturer to the consumer of peacetime goods. A certain amount of involuntary accumulation occurred as a result of the inability of producers to obtain needed parts to complete and ship products. An added factor toward accumulation was, of course, buying induced by price uncertainties and continued relative shortages of many goods.

Whatever the combination of factors which effectuated the increase in 1946, its significance should not be overlooked in appraising demand factors. The accumulation during the year represented an important stimulating influence in the volume of activity. The dollar values of manufacturers' sales when compared with inventories provide a basis for appraising the significance of the recent inventory rise:

The values of both inventories and sales are affected by price changes. In a period of rising prices each will reflect the increases, but with a different timing and degree of intensity. For the most part, price rises swell the book-value of inventories much more slowly than they increase the value of sales because of accounting methods. This lag, in the short run, tends to lessen the significance of the sales-inventory ratio when prices are advancing rapidly.

Over the long-range period, however, the relation of value of inventories to sales provides the basis for determining the working "norm" of manufacturing industries. In chart 11 the diagonal line represents the relation from 1929-39

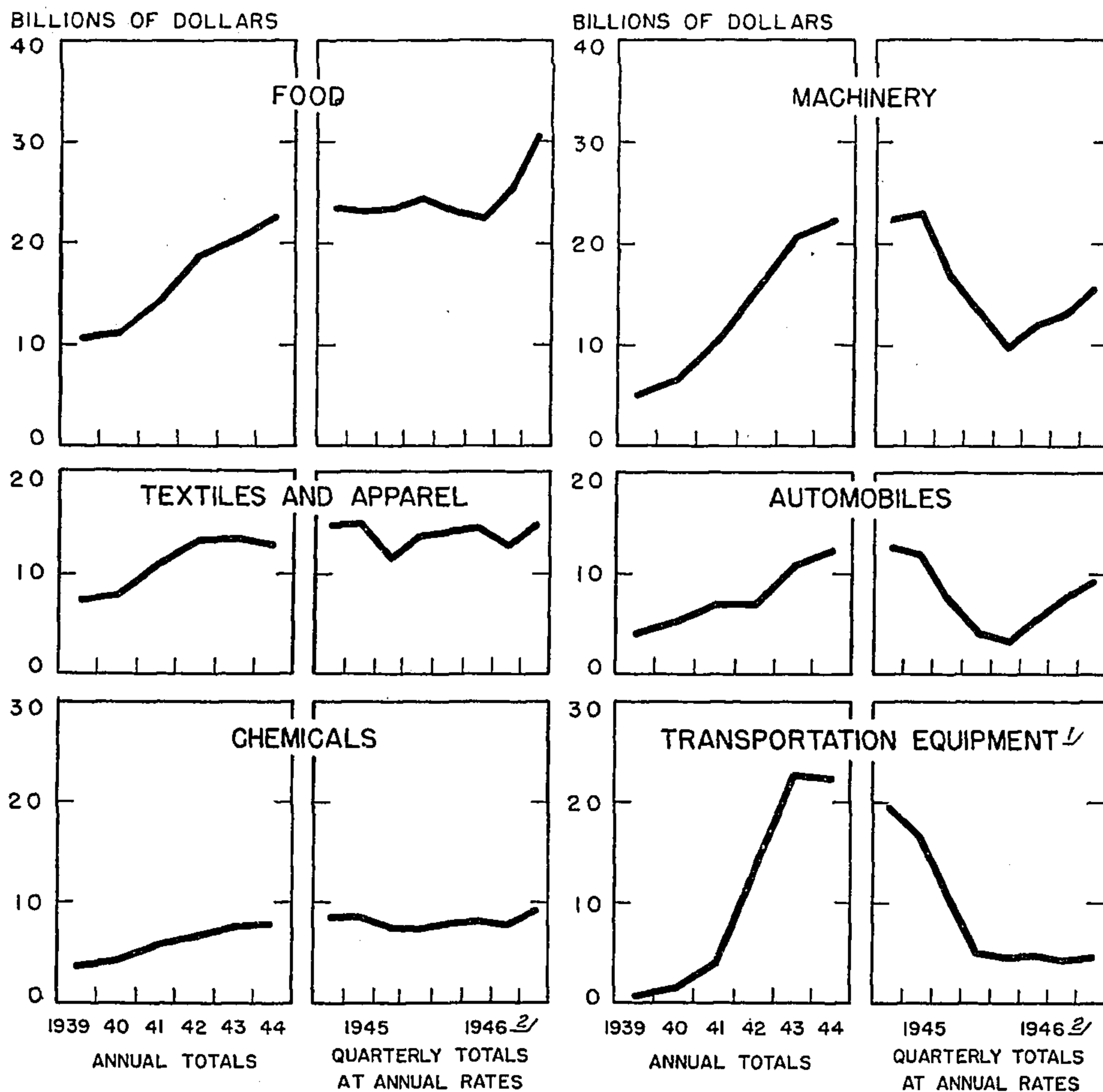
of the average value of stocks held to total sales for the year. Points falling to the right of the line indicate a "deficit" of inventories and those to the left of the line a "surplus" of inventories—if the average relationship existing from 1929 to 1939 is taken as "normal".

Quarterly data at annual rates in 1946 indicate that, dollarwise, inventories have exceeded the level which would be indicated by the prewar relationship of sales to inventories. The swing, during the year, back toward the line of relationship, is seen to be due more to the faster increase in value of sales than to any leveling off in inventories. Although the total value of inventories is somewhat high in relation to sales, the amount of "excess" is not sufficiently great to indicate that inventories are too high relative to sales. Manufacturers, especially in the durable-goods lines, are planning substantially higher volumes of production and are buying materials and building up their inventories on that basis.

The inventory position differed significantly as between the durable goods and the nondurable goods groups of industries in 1946. Of the 3.8 billion dollars increase for the year, 2.1 billion dollars was accumulated by the durable-goods group. This increase was large enough to swing the inventories for this group to a level above that which would have been expected on the basis of their value of sales—if prewar inventory sales relationships are taken as a "norm". The 1.7 billion dollar increase in value of stocks of the nondurable-goods industries was not sufficient to bring their total value of inventories up to the level indicated by the dollar aggregate of sales.

Further light is thrown on the 1946 inventory situation by an examination of where manufacturers have increased their holdings—i. e., in working stocks as purchased materials, goods-in-process, or in shipping stocks as finished goods. Comparison of changes in these categories with those for 1941 are made in the following table.

Chart 12.—Manufacturers' Shipments in Selected Industries



¹ Excludes automobiles.

² Data for 4th quarter, 1946, are preliminary.

Source of data: U. S. Department of Commerce.

47-052

	All in- ven- tories	Pur- chased mate- rials	Goods in proc- ess	Fin- ished goods
1946 increase over 1945:				
Billions of dollars.....	3.8	1.5	1.3	1.0
Percentage.....	25	19	35	21
1941 increase over 1940:				
Billions of dollars.....	3.8	2.1	1.5	.2
Percentage.....	32	44	60	11

The dollar values of increase in total inventories were about the same in the two years 1941 and 1946—both years saw intense conversion to an economy entirely different from that previously existing.

Manufacturers' Value of Shipments

The value of manufacturers' shipments aggregated 125.5 billion dollars or one-third above 1941 sales. After reaching a postwar low in the first quarter the value of shipments increased rapidly to an annual rate in the last quarter of the year of 150 billion dollars or slightly under the war peak. Higher prices contributed very substantially to this higher rate in the latter part of the year.

Historically, sales by nondurable-goods industries have fluctuated less widely than those of durable-goods industries. In the period since 1939 the value of shipments of the nondurable group have been increasing rather steadily, and continued that trend throughout

1946. By the end of the year, sales of these industries had reached the highest point on record at about an 85-billion dollar annual rate. Even with allowances for price increases, it is probable that this volume represents a record flow of physical goods.

Sales of the durable-goods industries, which skyrocketed during the war and then slid sharply downward from the last quarter of 1944 to the first quarter of 1946, increased by two-thirds during 1946. Because of the major changes in character of goods shipped, comparison of the dollar volumes of sales of these industries in late 1946 with similar dollar values in the war years is fruitless.

Table 10.—Value of Manufacturers' Shipments, 1939-46

[Billions of dollars]

Year	Total, all industries	Durable goods industries	Nondura- ble goods industries
1939.....	56.9	23.3	33.6
1940.....	65.8	29.6	36.2
1941.....	93.4	46.2	47.2
1942.....	121.3	64.9	56.4
1943.....	148.7	86.3	62.4
1944.....	156.1	89.2	66.9
1945.....	140.2	71.2	69.0
1946.....	125.5	52.0	73.5
1st. qtr.*.....	106.3	39.0	67.3
2d qtr.*.....	118.9	48.6	70.3
3d qtr.*.....	127.4	55.2	72.2
4th qtr.*.....	149.0	64.0	85.0

* Preliminary.

* At annual rates.

Source: U. S. Department of Commerce.

Trends by Major Industries

In chart 12 are shown the trends in value of shipments of selected industries. In the right-hand panel the typical sales picture of the "war" industries is illustrated—the sharp rise coincident with war production, the rapid decline as war requirements terminated, and finally the upswing in the latter part of 1946.

Each of the three industries shown, however, has its own unique deviations from the general pattern. The recovery of both the automobile and the machinery industries, however, is outstanding. Although the peak of war sales of the transportation equipment (other than automobiles) industry occurred in 1943 more than a year earlier than for the other two industries, the value of shipments in 1946 remained at about the same level throughout 1946. The change-over period appears to have been longest for this group and it may be expected that its value of shipments will continue to increase well into 1947.

In the left-hand panels are examples of those industries whose products needed but slight "reconverting" to be suitable for the civilian market. The pattern for these industries has been one of increase since 1939, with only minor declines in scattered quarters. These declines, particularly those during 1946 appear to have been influenced largely by seasonal production of marketing factors.

Agricultural Production

Farm production in 1946 continued at a high level, although combined output was fractionally lower than in 1945 and somewhat below the peak output reached in 1944. All of the decline which has taken place in the past 2 years has been in the production of livestock and livestock products, where most major components have been curtailed. In contrast, crop production reached an all-time high in 1946 as favorable growing conditions resulted in high average yields.

In spite of the small reduction in farm production, the total food supply available for civilians reached a new peak in 1946. Sharp cutbacks in military procurement were chiefly responsible for the larger civilian share. Total exports of food increased slightly over 1945 shipments, reflecting a further rise in commercial exports, and imports into the United States continued to be limited by the disorganized production situation in the chief exporting areas.

Prices received by farmers advanced moderately during the first half of the year, and then spurted sharply to move above the 1920 peak with the end of price control. With prices sharply advanced, cash receipts reached a level nearly one-third higher than in the early part of the year. All-in-all, it was another year of advancing money returns for farm operators.

Delayed Farm Reconversion

During the first year of peace, the reconversion of agriculture to a postwar status was retarded by the emergence of special transition forces which grew out of the end-of-war international food crisis. On the export side, the severe world shortage in cereals resulted in expanded wheat production—which now promises to reach a new peak in 1947—far beyond the prospective postwar markets likely to be available for United States wheat in subsequent years. On the import side, the absence of the usual

supplies of tropical oils created a demand for the continuance of the expanded domestic production of oil-bearing crops which was one of the leading wartime adjustments made in farm production. High production of these crops is again desirable in 1947 but as prewar sources of supplies are rehabilitated this segment will be faced with increasing competition, and much less favorable prices than have been secured in the post-OPA period. Difficulties may be encountered in lowering wheat production and in reducing output of oil-bearing crops, especially soybeans and peanuts, when this intensified competition materializes.

A more immediate readjustment problem arose in 1946 when potato production broke all records and required extensive price support in order to return to farmers 90 percent of parity price. The overproduction of potatoes was the result of a series of developments, including the use of DDT to control insects, which pushed yields sharply higher than

in any previous year; the acreage harvested was actually at the lowest point in over a half-century. In 1947, the Department of Agriculture is seeking to obtain a curtailment in potato output.

Another development in 1946 which was not in the direction of postwar adjustment was the further reduction in cotton output to a level below current consumption and export requirements. For the first time in more than a decade, the cotton carryover has been sharply reduced in the past 2 years to such an extent that an expansion in United States production appears desirable. The extent of the expansion is limited by the large labor requirement for cotton, the long-expected mechanization of which is not yet a wide-scale reality.

On balance, agriculture is little nearer to adjustment to the likely pattern of postwar demand than at the end of the war, although it has avoided the sharp expansion in acreage that occurred at the end of World War I which contributed to agricultural maladjustment in the interwar period.

From a financial standpoint, farmers in recent years have avoided a repetition of the mistake which they made in the war era ending in 1920 of going heavily into debt. Out of the wartime earnings, which have been larger and have extended over a longer period than in World War I, a higher proportion has been retained as liquid assets or used to reduce indebtedness.

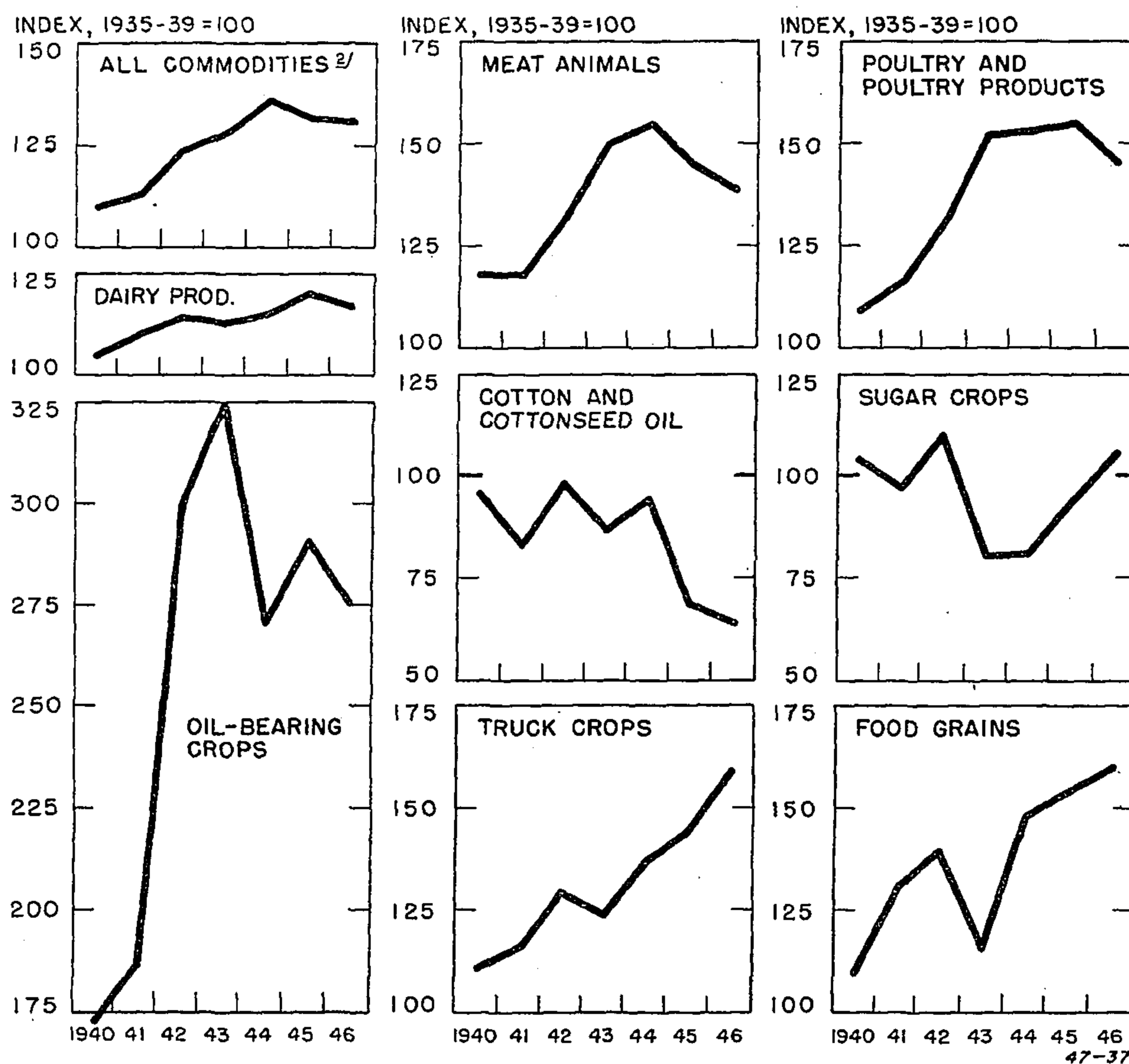
Livestock Output Reduced

For the second successive year, the output of livestock and livestock products was contracted in 1946 (see chart 13). Meat animal marketings, influenced by price control developments, were uneven during the year. Hog slaughter was about as high in 1946 as in the previous year, but in the latter part of the year a curtailment in pig production occurred which will show up in the spring and summer of 1947 when these pigs are marketed. Poultry and dairy output declined in 1946; although prices for these products were higher than in 1945, the relationship between these prices and the costs of feed was less favorable than a year earlier during the greater part of the year.

Crops Make Record

The favorable growing season in 1946 made possible a record crop production. In only a few leading crops was production lower. Cotton output was below that of any recent year (see chart 13) and the production of oil-bearing crops was off slightly although far above the prewar (1935-39) average. These declines were more than counterbalanced

Chart 13.—Volume of Agricultural Production ¹



¹ Indexes for 1945 and 1946 are preliminary.

² Includes some commodities not shown separately in chart.

Source of data: U. S. Department of Agriculture.

by higher sugar crops and record truck crops and food grains.

Feed grain and hay production (not shown in the chart), which had failed to expand as rapidly as livestock numbers during the war, reached a new high in 1946 both in absolute terms and in relation to the number of livestock on farms.

Parity Advances as Farm Prices Spiral

Although the volume and the character of farm production during 1946 was little affected by the ending of price control, the reaction on farm prices was swift and far-reaching. The contribution of the rise in farm prices to the cost-of-living increase during the year is discussed in another section. It is also important to interpret the farm price rise in relation to parity prices.

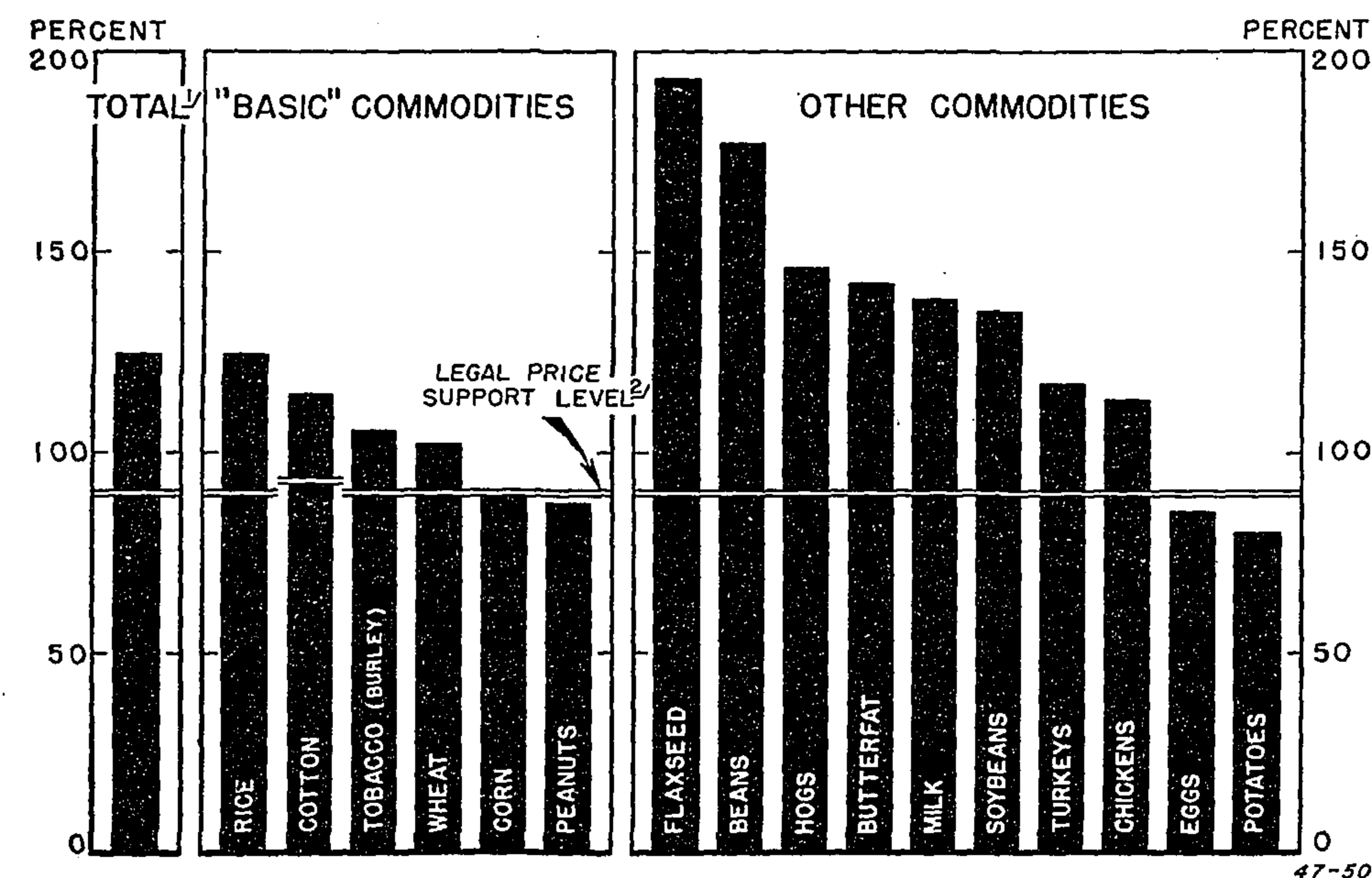
At the year end, farm prices averaged 24 percent above parity or comparable prices, as shown in the left panel of chart 14; nevertheless, several commodities were below parity. In the group of "basic" commodities in the chart, the prices received for corn and peanuts and—among the so-called Steagall commodities—the prices of eggs and potatoes

were all somewhat lower than 90 percent of parity on December 15. For the most part, the legal support level for these products, which is based on parity prices prevailing at the beginning of the marketing season, is below 90 percent of present parity prices.

This illustrates an important characteristic of parity prices. They are tied to the level of prices paid by farmers, and consequently are constantly changing. For example, between December 1945 and December 1946, prices received by farmers rose 27 percent, and during the same period parity prices advanced 21 percent reflecting higher prices paid by farmers. At the latter date, farm prices were only 5 percent higher in relation to parity than a year earlier in spite of the much larger rise in prices actually received.

As a result of the President's proclamation officially ending the war just prior to the beginning of 1947, the specific mandate to support farm prices at not less than 90 percent of parity is now scheduled to expire on December 31, 1948. The prices for which specific legal support is required include farm products which account for about 60 percent of farm income.

Chart 14.—Farm Prices of Selected Commodities as Percentages of Parity or Comparable Price, December 15, 1946



¹ Total includes commodities for which there is no price support level.

² Legal price support level is 90 percent of parity or comparable price for all items except cotton, for which it is 92.5 percent. Actual support levels vary in some cases from those shown in the chart owing to seasonal changes and to changes in the parity index since the beginning of the marketing season.

Source of data: U. S. Department of Agriculture.

In addition a general provision is made for the support of prices of other farm products, and some of them have been and are now being supported by the Secretary of Agriculture. Another important provision of the price support legislation is that the 90 percent level is a minimum and not a maximum. Prices of several products including wool, soybeans, flaxseed, and sugar beets are being supported at more than 100 percent of parity or comparable price. Authority for the support of wool prices is scheduled to expire April 1, 1947, and the Secretary of Agriculture has announced that unless new authority is provided the present support program will be discontinued.

Temporary Factors Swell Farm Income

The year 1946 was one of soaring farm prices and record farm income resulting from an unprecedented demand for farm products and the removal of price control beginning in mid-year. In the first half of the year, cash income from farm marketings flowed at a rate of approximately 22 billion dollars on a seasonally adjusted basis, and in the last 6 months of the year rose to an annual rate of 26 billion dollars.

In addition to the record disposable income of individuals in 1946 which provided a strong basic demand for farm products, a number of unusual influences were at work augmenting demand.

A special export demand for food and fiber grew out of the end-of-war famine

in Europe and Asia. This insistent need coincided with bumper crops in the United States or in the case of cotton with a sizable carry-over and it was financed in part by relief funds which made possible large transfers at high prices. Although heavy exports of foods are expected to continue during 1947, the intense needs will decline as continental food production recovers from the combined effects of war and bad weather.

Another special influence contributing to the demand for farm commodities in 1946 was the high proportion of consumers' disposable income spent for non-durable goods—a situation which is discussed elsewhere but which raises a question about the ability and willingness of the consumer to continue to pay prices as high as prevailed at the end of 1946.

As a result of these factors, a general upward price movement prevailed during 1946, slowly in the first half of the year when price controls were effective, and then more rapidly. In broad price movements, agricultural prices typically take the lead and record the largest changes. During the latter half of the year, removal of farm prices from control prior to general decontrol accentuated the usual sensitiveness of farm prices and resulted in a level of farm prices considerably out of line with non-farm commodities generally.

Periods of rising prices bring inventory gains to all branches of industry, but this benefit is particularly large for farmers because of their usual heavy inventory position. Whereas manufacturers now hold inventory valued at less than 2 months' sales, farmers hold crops and livestock on the hoof valued at approximately 8 months' sales. This high ratio of inventory to sales which characterizes farm operations results in a very large gain from a price rise such as that which occurred during the past year. The reverse is equally true of a price decline—larger losses are unavoidable on farm inventories.

Construction Activity

As a result of the rapid expansion of construction activity which began after VJ-day, the dollar value of construction put in place in 1946 rose to a high level. New construction activity exceeded 10.1 billion dollars, more than double the figure for 1945 and only about 25 percent below the record set in 1942.

NOTE.—This section was prepared by the Construction Division, Office of Domestic Commerce.

In contrast with most other industries which were freed from production and distribution controls after mid-summer of 1945, controls comparable to those in wartime were reimposed upon the construction industry in early 1946 to meet the exigencies of the housing shortage. With the revocation of Order L-41 in October 1945, privately financed construction of all types, particularly commercial and industrial building, had

sputtered upwards and threatened to outstrip building materials production. Increasing concern with the plight of the returning veterans, who were finding it extremely difficult to secure housing accommodations, resulted in the passage by Congress in May 1946 of the Veterans' Emergency Housing Act, granting priority for the building of homes for sale or rent to veterans, imposing a \$10,000 ceiling on new single-family residences,

and establishing an agency to assist in building homes for veterans.

Under the authority of the Second War Powers Act, meanwhile, a housing expediter had been appointed in January, who announced a program designed to provide 2,700,000 units in the succeeding 2-year period, to use subsidy payments rather than price increases wherever possible in stimulating building materials production, and to subordinate nonresidential building to residences for veterans. In effect, the controls over nonresidential building which were made effective in March 1946, and given further legal basis by the new act, reinstated those which had been used in wartime.

There was formulated early in the year a series of production estimates or goals for all types of construction and for building materials output for the year 1946. Preliminary data suggest generally close correspondence between earlier expectations and the actual results for 1946, with output of building materials making a somewhat better showing than construction activity. Although residential building fell short of the objective, the deficit was limited to 15 percent, in terms of work put in place.

Residential Starts Short of Program

The reason for the deficit in residential construction can be better understood if the analysis is conducted in terms of number of dwelling units started rather than in terms of dollar value put in place. The original announcement of the Veterans' Emergency Housing Program in February of last year called for the start of construction on 1,200,000 dwellings, including 250,000 factory fabricated houses. When it became apparent in midsummer that the latter number was too optimistic, the contributions of each segment to the total program were changed. The table below compares estimates of actual starts in 1946 with the original and revised programs for the number of units to be started.

	Actual number started (preliminary estimate)	Original program, February 1946	Revised program, summer 1946
(Thousands of units)			
New permanent dwelling units.....	671	900	838
Conventional.....	634	650	738
Prefabricated.....	37	250	100
Conversions.....	65	50	100
Trailers.....	48	50	50
Federal re-use—temporary.....	191	200	212
Other public and private projects.....	29	n. a.	n. a.
Total.....	1,004	1,200	1,200

The program as originally announced proved to be decidedly realistic in anticipating the future course of residential construction, with the exception of the number of prefabricated dwellings. In the latter case, the original program was missed by more than 210,000 units, accounting for more than the entire discrepancy between the 1,200,000 units programmed and the 1,004,000 actually started.

The temporary reuse program of the Federal Government missed the original schedule by only 5 percent. Other building by public bodies and educational institutions, including new construction, reuse of existing structures dismantled and built on other sites, and conversions—for which the data cannot yet be properly distributed among the appropriate categories—accounted for about 29,000 units started. These starts plus the 15,000 excess for conversions more than offset the modest difference between original program and actual starts in conventional dwellings and the small production lag in the house trailer industry.

Completions Low Relative to Starts

Perhaps a more realistic measure of the success of the drive for new housing in 1946 is the number of dwelling units actually completed. About 455 thousand permanent conventional and prefabri-

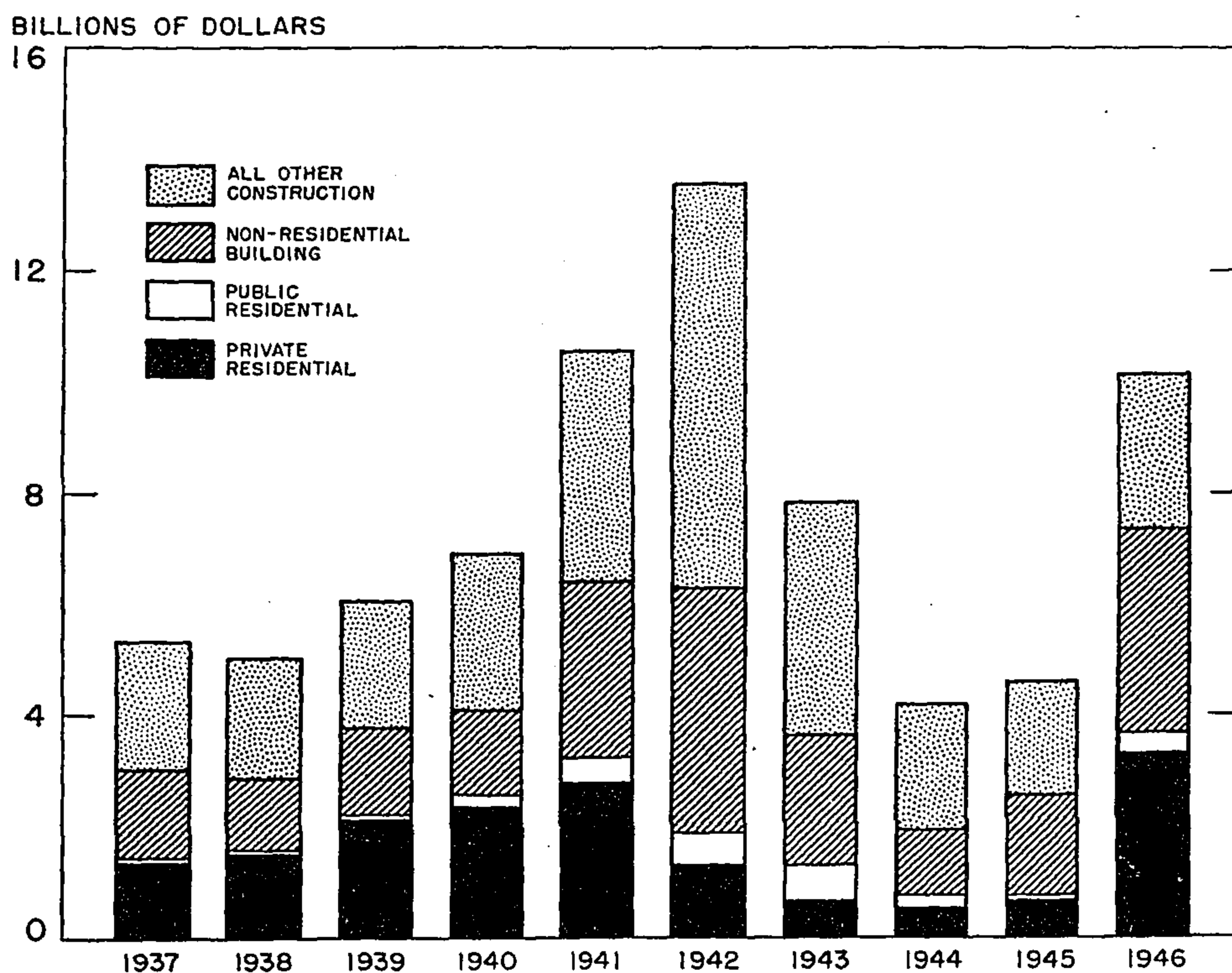
cated dwellings were made ready for occupancy—although naturally not all of these had been started in 1946. Over 45,000 new permanent units were made available by conversions of existing units. In addition to these, the program for temporary houses and trailers provided 160,000–165,000 units ready for occupancy in 1946.

Sporadic building progress due to failure to receive materials as needed and inability to hire skilled artisans at will resulted in lengthening the duration of actual construction from the 3 to 4 months normally required to 6 and 7 months in many cases. Construction analysts recognized the inevitability of this development, as the demand for materials for the number of projects authorized was nearly in balance with the total output expected for the year as a whole, and hence tended to outstrip production, particularly in the early part of the year. Competition for available materials and labor by nonresidential builders was also an important factor contributing to lengthened construction periods for residential units.

Nonresidential Building at High Level

Because construction already started before the effective date of restrictive regulations was permitted to continue, the volume of private nonresidential building continued to rise throughout

Chart 15.—New Construction Activity, by Type



Source of data: U. S. Department of Commerce.

the year to a total of 4.5 billion dollars. (See chart 15.) Public and private residential building in 1946, although making large gains, totaled nearly a billion dollars less than nonresidential building for the year.

All private construction—in which the heaviest components were 3.3 billion dollars of residential and 3.4 billion dollars of nonresidential building—totaled 7.9 billion dollars or almost four-fifths of the value of new construction. The effect of this resurgence of private building was to widen further the gap between private and public construction which had reversed roles as the chief support of construction during the war period.

In current dollars new construction in 1946 at ten billion roughly matched 1941 expenditures of 10.6 billion. In 1941, this outlay was almost evenly divided between private and public expenditure while in 1946 private outlay was almost $3\frac{1}{2}$ times as large as public expenditure.

Physical Volume of Construction

Previous discussion of building volume in terms of current prices needs to be reappraised in the light of building cost developments and the substantial increases in building materials prices during the year. Although final data are not yet available, a rough estimate indicates that in terms of 1939 prices, 1946 volume was equivalent to 6.4 billion dollars. On this basis, the volume of new construction last year was about two-thirds of the 1941 total of 9.4 billion dollars although it was still twice as large as the 1945 figure of 3.3 billion dollars in 1939 prices. In terms of physical volume, the retardation of the programs of Federal, State and local governments is apparent, since the public category is the only one in which 1946 construction was virtually the same or less than the volume of construction in the previous year. Another interesting point which emerges is that private nonresidential building was somewhat greater than residential building in terms of physical volume measured in 1939 prices.

Building Materials Drive Meets Success

The necessity of stimulating production of all types of building materials received early recognition as the crucial

element in the 1946 construction program.

Manufacturers responded to the market opportunities created by the tremendous building demand and were aided by a vigorous program of Government assistance. The Federal aids included price increases for building materials by OPA, priorities to materials producers, and premium payments to cover high cost operations. At the end of the year, almost all of the building materials included in the Department of Commerce production index had registered substantial increases. Conspicuous shortages persisted, however, in supplies of cast iron soil pipe and cast iron radiation.

In view of the current high level of building materials output and the prospect for further gains, it appears likely that production will equal requirements for nearly all materials in 1947 and that delays owing to maldistribution of stocks will gradually disappear. Increasing production is also expected to have a restraining influence on building materials prices which rose rapidly over the past year.

Construction Controls Modified

The outlook for construction in 1947 will be affected by the recent changes in the whole gamut of controls. The general removal of price controls on November 9, 1946 affected building material prices and entailed readjustment of other controls relating to construction activity. Thus, the ceiling price limitations on dwellings have been removed and the limit on shelter rents has been raised from \$80 a month maximum to \$80 average for a project. It is planned to continue guaranteed market contracts for prefabricated houses and for new materials together with financial aids to such manufacturers. On the other hand, abandonment of premium payments would seem indicated in many cases now that manufacturers are free to set their own prices. Relaxation of controls over nonresidential building may also be expected in 1947.

Remaining restrictions on building and the new ones devised to take the place of those dropped are of a nonfinancial nature. Thus, in lieu of the former \$10,000 price ceiling, the floor area per

dwelling will be limited to 1,500 square feet to restrain luxury building. Priorities for construction were discontinued after December 23, although priorities then outstanding will continue to be honored.

Nonveterans as well as veterans may now build for their own occupancy, but units built for rent or sale must still be offered to veterans first. The quality standards previously required have been abandoned and the inspections that were part of the priority system will be discontinued under the new permit system. The OPA has announced that houses built with priorities assistance but not completed before December 24 must be sold at the prices stated in their authorization certificates which, of course, are written for amounts under the former \$10,000 limit.

Forecast for 1947

The volume of demand which counted so strongly in the 1946 market will for the most part continue through 1947. If a favorable economic situation continues for the next few years, the effective demand for residential units will continue unabated and will require at least 3 to 5 years for fulfillment. Given the present large backlog of houses started but not completed and increasing building materials production in 1947, it seems likely that one million privately financed residences of the permanent type will be started this year and about 900 thousand may be completed.

Commercial construction is expected to increase somewhat but a relatively larger increase will be made by industrial building. Extensive building of new plants and facilities will be necessary for economical production under the competitive situation which is in process of development and is certain to achieve full strength within the next 2 to 3 years. The amount of construction under way and planned to be started makes a projection of over 2 billion dollars in this category seem likely. This represents a 25-percent increase in dollar terms over 1946. Public residential and public industrial construction are expected to decline although there will be large increases in the construction of sewer and water systems, school buildings, hospitals, and other public institutions.

Domestic Transportation

Following the end of the war the transportation industry underwent a series of adjustments in both the composition of traffic and its distribution among the various transport agencies.

The major factors underlying these adjustments were (1) the return to trucks and deep sea ships of traffic diverted to rail and pipelines during the war emergency; (2) the lower level of production

and changes in its pattern with the return to a civilian market; and (3) the reduction in the average haul with the decline in war goods shipments to Atlantic and Pacific Coast ports.

The total volume of intercity transportation in 1946 was about 10 percent below the 1945 level—and more than a third above its 1941 rate. The decline in commodity traffic in 1946 was less severe than that experienced in the passenger field due primarily to the postponement of large reductions in the latter traffic until the major part of demobilization was completed in the early spring of 1946. The decline in freight movement followed immediately after VE-day, reaching its postwar low in October 1945. Although combined commodity traffic in 1946 was about 8 percent lower than in the previous year, the trend during the second half of the year was upward.

Postwar Readjustments

Examination of available information on commodity traffic indicates that the relative shares carried by rail and pipe lines in 1946 were considerably below their wartime peaks and only slightly above their 1939 rate. These corrections began immediately after the elimination of the submarine menace to our sea lanes and were increasingly noticeable as motor fuel and equipment became more generally available. The proportion of traffic going to motor and water carriers increased steadily during the period—although the latter group was still far below its relative position in 1939.

Significant readjustments were most evident in the railroad industry. These took place both in the composition of traffic and in the relationships of overall operating factors. During the war years, rail ton-miles registered gains far greater than the increases in freight carloadings due to the lengthening average haul and heavier loadings of cars. These factors in 1946 were off some 15 and 5 percent, respectively, from their wartime peaks—so that the gap between ton-miles and carloadings was sharply reduced.

Despite these adjustments, both the average haul and average load were still about 15 percent higher than in 1939. The increased haul reflects both higher exports and the remaining traffic with our overseas military forces—while the heavier loadings of cars is still required by Office of Defense Transportation regulations. There are many indications, however, that these factors will not completely return to their 1939 levels and that some of the increased efficiency in equipment utilization will be retained.

An examination of the major classes of commodities carried by rail reveals a definite reversion to the prewar composition of traffic. The commodity groups which had risen relatively less than had total carloadings in the 1939 to 1945 pe-

Table 11.—Domestic Intercity Traffic Volume, 1939–46

[Indexes, 1935–39=100, adjusted for seasonal variation]

	Total passenger and commodity	Commodity, ton-miles	Passenger-miles	Railroads		
				Net ton-miles	Freight carloadings	Passenger-miles
1939.....	106	107	105	104	101	103
1940.....	117	118	113	115	109	108
1941.....	146	147	143	146	130	133
1942.....	185	178	236	194	138	244
1943.....	220	201	357	219	137	400
1944.....	230	209	388	222	140	434
1945 year.....	222	199	389	206	135	419
1st quarter.....	233	213	372	221	143	405
2d quarter.....	238	218	385	232	141	412
3d quarter.....	217	194	385	201	131	403
4th quarter.....	202	173	409	174	126	454
1946 year.....	200	183	328	180	132	296
1st quarter.....	207	186	364	188	133	370
2d quarter.....	186	167	322	158	116	290
3d quarter.....	203	187	321	186	139	276
4th quarter.....	202	188	303	182	139	250

• Preliminary.

Source: U. S. Department of Commerce and the Board of Governors of the Federal Reserve System.

riod (forest products, livestock and less-than-carload lots) were the only ones to show increases from 1945 to 1946. In addition, the relative carloading increases and decreases registered in this period by the commodity groups were, in general, inversely proportional to their wartime trends. Thus, the spread between the various carload commodity indexes (1935–39=100) was only 12 percent in 1946 compared to 49 percent in the peak year of 1944. Merchandise l. c. l., despite its greater vulnerability to non-rail competition, registered the greatest increase from 1945 to 1946, reflecting the sharp rise in the flow of consumers' goods.

Despite declines from 1945 to 1946 of 2 percent in carloadings, these readjustments, and the increased car "turn-around time" as industry generally went back to a 5-day workweek, resulted in continuing high demand for freight cars. The number of new cars put in service during 1946 was about one-third less than the number permanently taken out of service. There was little change in the number awaiting repair, and the number of serviceable cars owned by Class I railroads declined about one percent during the year. However, the installation of new freight cars rose from 8,006 in the first quarter to 12,369 in the third quarter.

Although accumulated steel shortages and earlier export commitments brought installations down to 9,752 cars in the final quarter, present allocation of steel in 1947 will permit production of about 7,000 cars a month. This greater availability of cars was reflected in a survey

of capital expenditures by Class I line haul railways which showed anticipated outlays for equipment of 175 million dollars in the first quarter of 1947 as against actual outlays of only 50 million dollars in the same period in 1946.

The railroads carried approximately 632 billion net ton-miles in 1946—a decline of 13 percent from the 1945 total. A quarterly comparison with 1945 traffic, however, showed a slackening rate of decline in the first three quarters while, despite the coal stoppage, the last quarter of the year was about 7 percent above the corresponding period in the previous year.

Pipeline Volume

The resumption of large-scale tanker movements of oil resulted in a decline of about one-fourth in ton-miles carried by the pipelines from 1945 to 1946. Since oil production was at record levels in 1946, this decline understates the magnitude of the diversion in traffic from pipeline to water carrier. About two-thirds of the decline in pipeline ton-miles was accounted for by the stoppage of oil flow through the large Government-owned emergency pipelines. Although these lines were leased under a short-term agreement as natural-gas carriers late in 1946, their final disposition was still undecided at the end of the year.

Waterborne Traffic

The resumption of long-haul traffic in both intercoastal trade and tanker movements from the Gulf to the East Coast brought a substantial increase in total domestic waterborne ton-miles from 1945 to 1946—despite declines in volume carried on the inland waterways.

Dissatisfaction of the carriers with the present freight-rate situation acted as a deterrent to traffic in most nonbulk commodities. Intercoastal traffic is being carried almost exclusively by Maritime Commission vessels. Unless rates are adjusted, or the Commission's request for extension of authority is approved, it appears that this traffic will come to a virtual halt when present authorizations expire on February 28, 1947. (A discussion of possible water-rate adjustments and specific rail-rate revisions appeared in last month's SURVEY OF CURRENT BUSINESS.)

Ton-miles carried on the Great Lakes during the 1946 season was about 15 percent lower than in the previous year. Iron ore shipments, which in recent years, account for about 70 percent of ton-miles on the Lakes, fell from 75.5 million long tons in 1945 to 59.4 million tons in 1946. This decline reflected the direct and indirect effects of both steel and coal stoppages in the early months

of 1946. The grain movement was off relatively more than iron ore shipments due to the low stock position at lake ports at the end of the 1945 season.

The decline in ton-miles on the inland waterways (excluding Great Lakes) was due primarily to the falling volume of petroleum and iron and steel products. The change in petroleum movement was particularly severe on the Gulf Intra-coastal waterways as oil was diverted from barge to tanker. Coal traffic in 1946 was only slightly lower than the 1945 level.

Truck Loading at Peak Levels

The shift in production emphasis from military goods to civilian goods was especially favorable to the trucking industry which is better adapted to the movement of miscellaneous manufactured products. This factor in addition to near-record agricultural output, and the elimination of the deterrent wartime equipment and fuel shortages, resulted in a 1946 truck-loading level almost equal to the 1943 peak.

The increase in loadings from 1945 to 1946 was experienced by all classes of commodities except petroleum products and heavy machinery—with the largest relative gains occurring in movements of general merchandise, motor vehicles,

building materials, and agricultural products.

Air Commodity Transport

The sharpest relative decline in commodity traffic from 1945 to 1946 was registered by the scheduled air lines—as total ton-miles fell from 88 to 69 million. This decline occurred despite an increase of about 60 percent in express and freight ton-miles, as the more important air-mail volume was cut in half—due to the greatly diminished demand for air mail to and from our armed forces. It is interesting to note that as a result of these divergent trends, the ton-miles of express and freight in 1946 exceeded air-mail volume for the first time in air line history. In addition, a partial survey of the newly developed noncertificated air carrier industry showed that these carriers in May and June 1946 carried a minimum of 40 percent as much freight and express as the scheduled air lines.

Passenger Traffic

Intercity passenger traffic in 1946 declined about 15 percent from the peak year 1945—the entire loss attributable to the 29 percent decline in rail passenger-miles. Total rail passenger-miles declined from 92 to 65 billion. The decline was confined to noncommutation traffic with commutation traffic, reflecting rec-

ord civilian employment, at its highest level since 1931. The sharp drop in furlough travel resulted in a relatively greater decrease in coach traffic than in the parlor and sleeping-car service.

The fall in military demand was primarily responsible for many significant changes in rail passenger operating statistics from 1945 to 1946. Average haul and average load per passenger car were off some 15 and 20 percent, respectively. Average revenue per passenger-mile increased about 3 percent as the volume of low-rate furlough traffic dwindled.

Intercity motor bus volume was down slightly from 1945 to 1946. Although affected, but to a much lesser extent than the railroads—by losses in military travel and passenger-car competition, this traffic was bolstered by the eased equipment and fuel situation.

Air passenger-miles carried by scheduled airlines increased about 70 percent from 1945 to 1946 bringing their volume to about eight times the 1939 level. The rapid growth and significance of this means of transport is indicated by the fact that its current rate is over 40 percent of the total passenger-miles carried in the rail Pullman service. Available evidence indicates that passenger transport by noncertificated air carriers is as yet not a significant percentage of total air traffic—but this field is expanding rapidly.

Retail Sales

The sharp increase in sales of retail stores which followed the end of the war brought both physical volume and the dollar totals for 1946 to new highs despite the fact that many goods were still in short supply relative to demands.

Three features marked the movement of sales during the year. (1) Total retail sales in the early part of the year had reached a dollar volume which was once more in line with the prewar relationship of sales to incomes. This is in contrast to the war period when, despite the fact that sales were steadily rising, the aggregate dollar retail sales were nevertheless below the amount which consumers would have normally spent, because of severe shortages of many types of consumer goods, rationing and price controls. (2) During the first 6 months of the year retail sales increased about in line with seasonal trends. (3) As prices were decontrolled, sales rose by more than seasonal amounts but the rise

reflected the purchase of goods at higher prices. What happened to volume is not clear; superficially, the dollar sales and price changes indicate a decline. But this evidence is not conclusive in view of the shift in relative prices and in the character of some lines of goods sold.

Of fundamental importance to the future prospects of retail trade is the fact that the more than normal concentration of buying in nondurable goods stores that was evident during the war period was not significantly changed in 1946. This was brought about primarily by the temporary extraordinary purchases of returning servicemen, by producers of nondurables concentrating on higher price lines, and by the low production of many consumer durable goods, in addition to the fact that consumers reestablished the normal proportion of savings to income. Because the supply of durables was low, spending tended to spill over into nondurable goods stores.

This trend persisted throughout 1946 but toward the end of the year evidences of slackening in the dollar sales of many high-priced nondurables were developing. Merchants in these lines were then confronted with the question as to whether their sales and profits would be cut as the supplies of durables became available in larger quantities. Unless consumers decide to save a much smaller proportion of their income than they normally do, a larger flow of durables would result in reduced demand for nondurable goods with resultant price consequences.

Sales of all retail stores for the year amounted to 97 billion dollars, more than a fourth above the previous year and three-fourths above the prewar year of 1941. The continued gains in all retail sales since 1939 are shown in the upper panel of chart 16. On a per capita basis, dollar sales in retail outlets in 1946 were \$690, compared with \$580 in 1945, and \$420 in 1941.

Prices Up Sharply

Prices played an important part in the higher dollar sales in 1946. Rising slowly in the first half of the year, prices increased sharply when price controls were removed. The index of prices at retail stores rose 10 percent on the average in 1946 over 1945; from June to December 1946, the index increased by 17 percent. The volume of goods sold was greater than in the previous year by about one-seventh, if the comparative movements of the dollar sales and the price index may be accepted as a rough guide.

Nondurable Sales Rise Sharply

Dollar sales at nondurable goods stores, shown in the lower panel of the chart, rose steadily throughout the war years. In the first half of 1946 sales were at an annual rate of 75 billion dollars, 20 percent over the previous year. The annual rate of 80 billion dollars reached in the second half of the year occurred only because of the sharp increase in prices.

Sales at durable goods stores, which had dropped to a relatively low volume during the war years, went up steadily in 1946 despite reconversion problems and the low volume of production of many durable goods. Total sales in such stores amounted to 19 billion dollars in 1946. This dollar total was about two-thirds above the previous year and well in excess of the prewar year 1941.

Sales in Line With Disposable Income

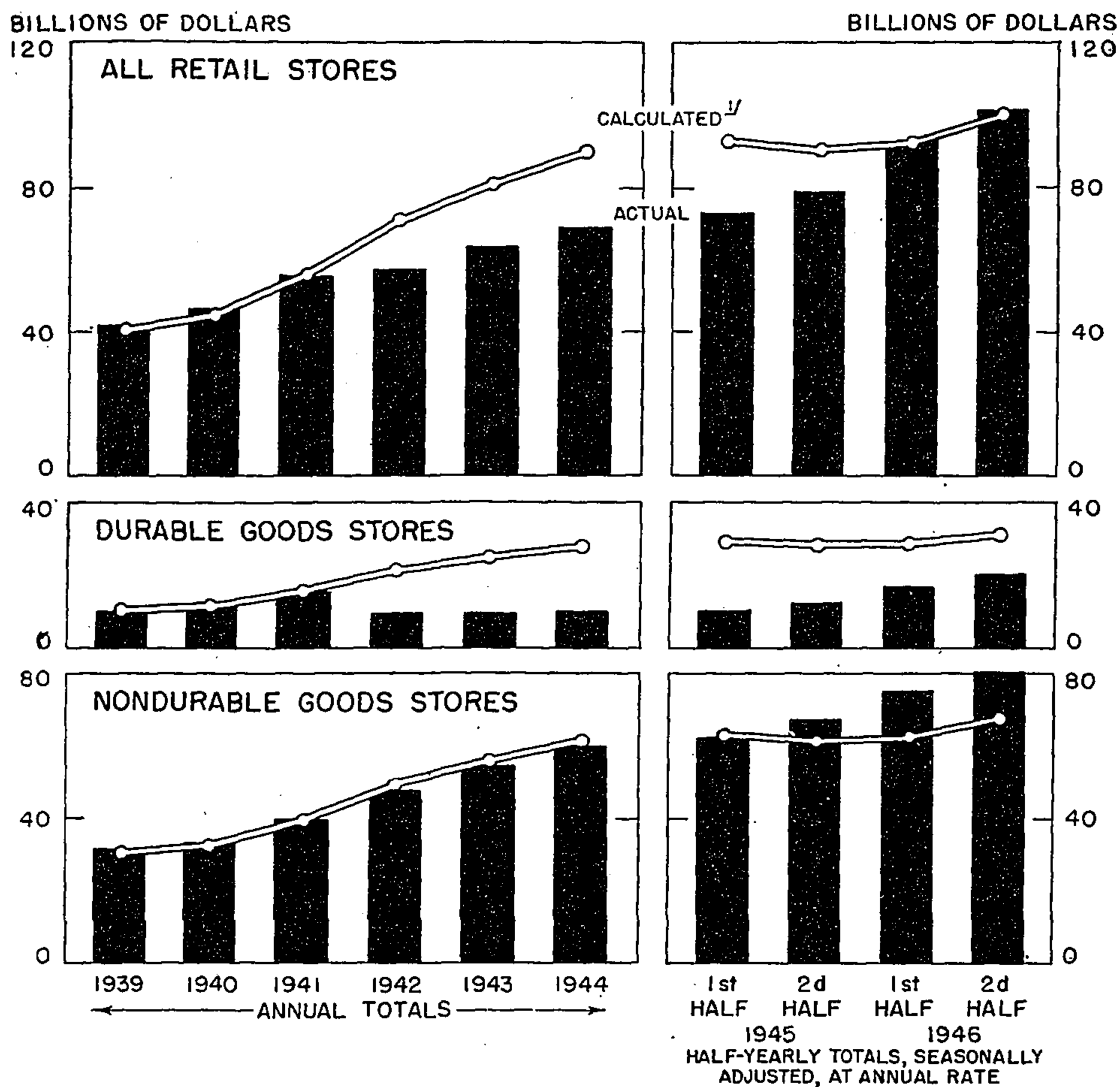
Chart 16 shows the trend of actual retail sales and sales which could have been expected on the basis of the prewar relationship of sales to incomes. During the war years sales, though rising rapidly, did not keep pace with the disposable income of individuals. This is shown in the upper panel of the chart where after 1941 retail sales calculated from the prewar relation of sales to income are considerably in excess of actual sales.¹

It is of interest to note that for the nondurable goods stores sales were fairly well in line with incomes even in the war years. On the other hand, in the durable goods field where supplies were generally short, sales were far below the amount that these stores could have expected on the basis of the incomes of individuals.

After VJ-day with the shift from military to civilian production and with a freer spending attitude on the part of consumers, total sales were increased by the first half of 1946 to the point where they were once more in line with the prewar relationship to incomes.

However, the striking development following the end of the war was the dis-

Chart 16.—Sales of Retail Stores, Actual and Calculated



¹ For regression equations used to obtain "calculated" sales, see "Retail Sales and Consumer Incomes," SURVEY, October 1944.

Source of data: U. S. Department of Commerce.

tortion in the consumer buying pattern. Because many durables were still short, consumers stepped up their purchases at nondurable goods stores far beyond the amount consistent with the prewar relationship of these sales to incomes. On this basis sales of nondurable goods stores during 1946 were 12 billion dollars above the amount indicated by the prewar relationship. Sales at durable goods stores, on the other hand, were below the prewar relationship by about the same amount that sales of nondurable goods stores were above.

Sales Varied by Lines of Trade

A comparison of sales by quarters for the years 1941, 1945, and 1946, for selected groups of stores is shown in charts 17 and 18. In order to compare the relative changes in sales for each group a ratio scale was used. These charts show many contrasting developments in the sales trends among the kinds of business in the durable and the nondurable goods groups. Estimates of annual sales volume are presented in table 12.

Sales of Food Stores

Sales of food stores which had risen steadily through 1945 continued the upward movement in 1946 to a record total of almost 24.5 billion dollars—exceeding the previous year by one-fifth. This total was double the sales of these stores in 1941.

The high level of sales reflected larger supplies of foods and higher prices. Some shortages of meats and dairy products appeared in the midquarters of the year, but these were largely connected with the price uncertainties. Food prices rose sharply after price controls were removed, December prices being about 30 percent above June.

While sales at eating and drinking places in 1946 continued above 1945, the rate of increase leveled off despite higher prices and the increase in the civilian population. During 1946 dining at home increased as food supplies eased, family units were reestablished, and many housewives withdrew from the labor force. The decreased mobility of the population also contributed to the slack-

¹ For formula used to calculate sales, see SURVEY, October 1944, "Retail Sales and Consumer Income."

ening increase in such sales. Total sales at eating and drinking places amounted to 12 billion dollars, 12 percent above 1945, the smallest year-to-year rise shown in six years.

Apparel and Department Store Sales

Spending by consumers for apparel reflected the changing character of the postwar adjustment period. In the first half of 1946, influenced by strong Easter sales and the enormous demands of returning servicemen, sales moved to much higher dollar volumes relative to the corresponding period of 1945. A further flurry in the third quarter reflected a certain amount of forward buying in anticipation of sharp price rises. In the fourth quarter some notes of caution in buying became evident. High price lines and poor quality items began to meet considerable consumer resistance.

Women's apparel stores had an extraordinary volume of sales in the war years. These sales continued at even higher volumes during 1946. Total sales at women's apparel stores during the year exceeded 4 billion dollars, 13 percent above 1945 and two and one-half times sales at such outlets in 1941. These sales reflected heavy buying of high-priced lines.

Sales of these stores which even in the war years had been far in excess of

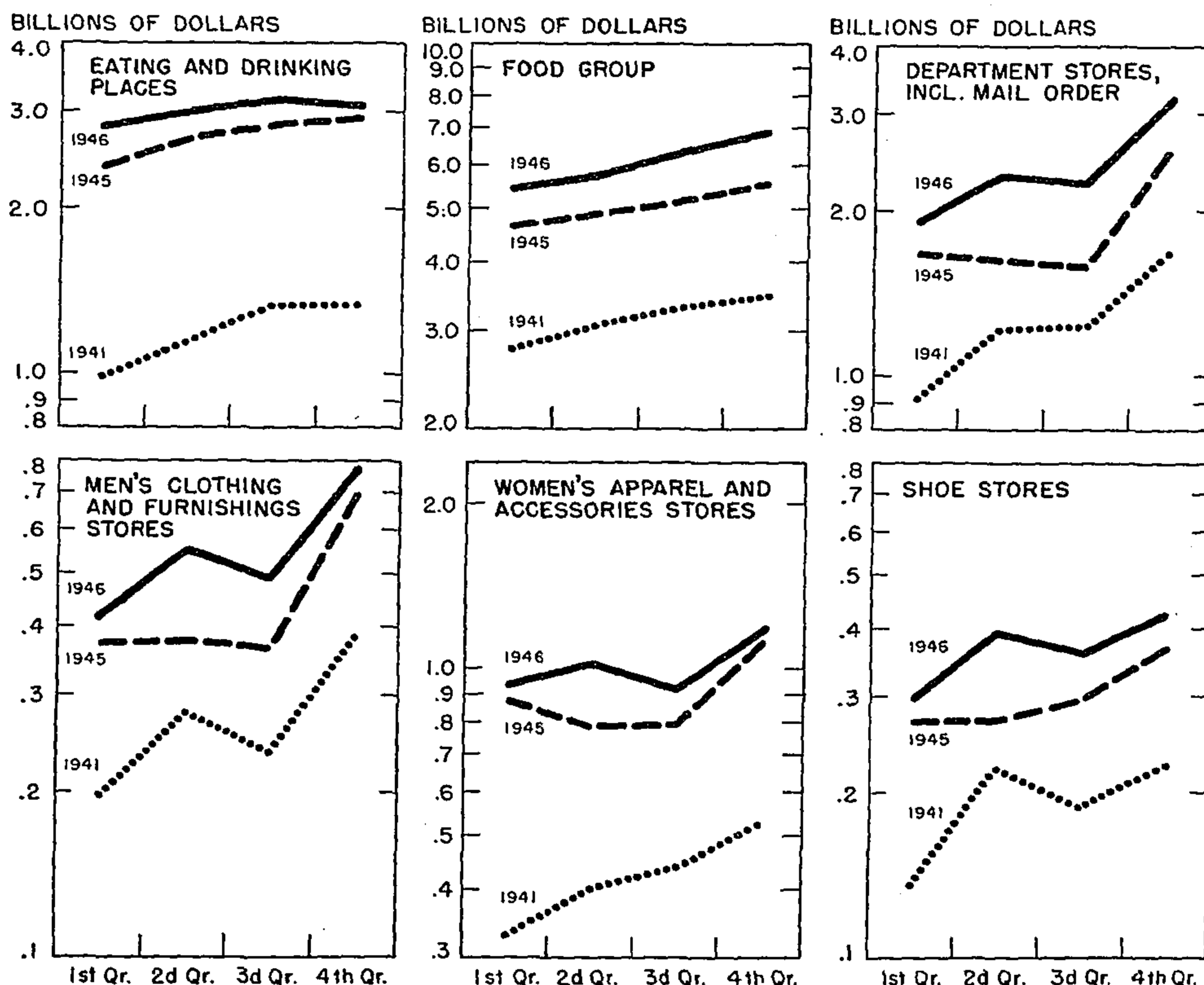
what could have been expected on the basis of the prewar relationship to income, rose in 1946 to a level 1.2 billion dollars above the relationship. At the end of the year, however, with the availability of other goods and some resistance to high prices this excess was being narrowed.

Sales at men's clothing stores showed a different behavior. During the war years sales had dropped below the line of relationship to income established in prewar years. After VJ-day, however, with the return of servicemen to civilian life sales increased sharply. Much of this increase in demand was temporary, however, and by the end of the year there were some indications of a slackening in the rate of increase.

Shoe Stores

Sales of shoe stores amounted to 1.5 billion dollars in 1946, more than one-fifth above 1945. Part of the increase reflected higher prices and part was due to increased production. Output of shoes for civilian use in 1946 amounted to 525 million pairs compared with 445 million in 1945. Heavy purchases by demobilized servicemen together with high consumer incomes resulted in a sharp spurt in sales of shoe stores in the first half of 1946. In fact purchases would have been even greater if it were

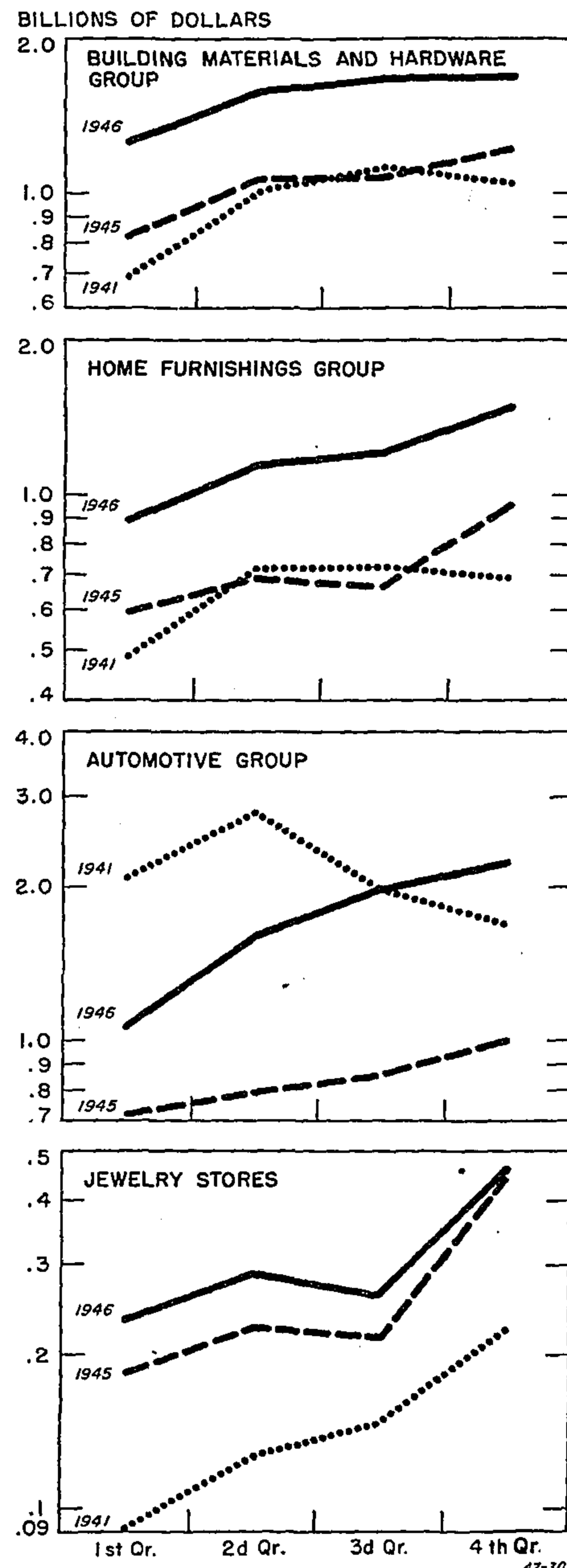
Chart 17.—Sales of Selected Groups of Nondurable Goods Stores ¹



¹ Data are plotted on ratio scales.

Source of data: U. S. Department of Commerce.

Chart 18.—Sales of Selected Groups of Durable Goods Stores ¹



¹ Data are plotted on ratio scales.

Source of data: U. S. Department of Commerce.

not for the fact that the increase in production was limited by a tight hide supply. As in the case of women's high priced apparel, a slackening of demand developed in the latter part of 1946 for high-priced women's shoes.

Department Stores

A somewhat different picture was shown for department stores. In the first part of the year department stores rode the crest of the apparel buying wave that has already been mentioned. When demand, especially for high-priced lines, slackened in the second half of the year it was offset by the increased availability

of durable goods. Thus, a high volume of sales was fairly well maintained throughout the year. Total sales of department stores, including mail order houses, in 1946 were 9.6 billion dollars, 30 percent above the previous year and almost double 1941. The gain over 1945 was the largest for any of the major non-durable goods groups.

Jewelry Stores

The only durable goods group which experienced a decline in sales after seasonal adjustment in the latter part of the year was jewelry stores. Sales of these stores amounted to almost 1.2 billion dollars for the year. On a seasonally adjusted basis, however, sales which in the first half of the year were at an annual rate of 1.3 billion dollars, declined in the final quarter to an annual rate of less than 1.2 billion dollars.

Jewelry stores had shown a sharply increasing level of sales in the war years. Merchandise was in fairly adequate supply and stocks more diversified by the expansion of costume jewelry, glassware and general gift lines. Thus, after the end of the war there was not the large backlog of consumer demand as was the case for other durables. The general price rises and the increased availability of other more essential goods cut somewhat into the luxury jewelry trade.

Automotive Stores

In the remaining durable goods stores the variations shown in the chart reflect primarily supply conditions. Because of the tremendous backlog of demand, prices asked appeared to be no deterrent to sales.

In 1946, a total of 2.2 million passenger cars were produced. There is no question that current demand could have

absorbed many more. Total sales by automotive stores, including parts and accessories, amounted to 6.8 billion dollars in 1946. Seasonably adjusted sales in the last quarter of 1946 were 93 percent above the first quarter of the year. Price rises also accounted for some of this increase. Nevertheless, total sales in this group in 1946 was still 20 percent below 1941.

Home Furnishings

Sales of home furnishings stayed close to the 1941 level throughout the war. The rise in sales began after VJ-day and went up rapidly as previously missing household durables began reaching the market in quantity. The backlog of demand plus the establishment of new

households kept sales moving rapidly throughout the year.

In spite of continuing difficulties in lumber production there was material improvement in the availability of furniture items throughout the year. Low price lines, however, continued to be absent.

Sales of home furnishing stores in 1946 were 4.7 billion dollars. Of this total, furniture and house furnishing stores accounted for 3.3 billion dollars, about 50 percent above the previous year, while household appliance and radio stores with 1.4 billion dollars exceeded the previous year by nearly 110 percent.

Building Materials and Hardware

Because production of goods in these categories was channeled to war uses, sales of building materials and hardware stores remained at about the 1941 level during the war years. After VJ-day, however, as more production went to civilian uses, sales of these stores increased materially.

Sales of building material and hardware dealers reached 6.2 billion dollars for the year, a gain of about 50 percent above 1945 and 60 percent above 1941. Although these sales were high relative to previous years, they did not increase substantially during the year despite heavy demands. This reflected the channeling of building supplies into building construction so that retail dealers of such commodities were unable to get sufficient supplies to meet demands.

Hardware store sales advanced throughout the year as more and more items in this category became available. The heavy demand kept supplies of selected products tight but in general the supply situation eased considerably and the quality of products improved.

Table 12.—Sales of Retail Stores

[Billions of dollars]

Kind of business	1939	1941	1945	1946
All retail stores.....	42.0	55.5	76.6	96.7
Durable goods stores.....	10.4	15.6	11.5	19.0
Nondurable goods stores.....	31.7	39.9	65.1	77.7
Durable goods stores:				
Automotive group.....	5.5	8.5	3.4	6.8
Building materials and hardware group.....	2.7	3.0	4.2	6.2
Home furnishings group.....	1.7	2.6	2.9	4.7
Jewelry stores.....	.4	.6	1.1	1.2
Nondurable goods stores:				
Apparel group.....	3.3	4.2	7.7	9.0
Men's clothing and furnishings stores.....	.8	1.1	1.8	2.2
Women's apparel and accessories stores.....	1.3	1.7	3.6	4.1
Shoe stores.....	.6	.8	1.2	1.5
Family and other apparel stores.....	.5	.6	1.1	1.3
Drug stores.....	1.6	1.8	3.0	3.6
Eating and drinking places.....	3.5	4.8	10.8	12.1
Filling stations.....	2.8	3.5	3.0	3.8
Food group.....	10.2	12.6	20.2	24.4
General merchandise group.....	6.5	7.9	11.6	14.6
Department stores including mail order.....	4.0	5.0	7.4	9.0
Other retail stores.....	3.9	5.2	8.7	10.3

NOTE.—Figures do not necessarily add to totals due to rounding.

Source: U. S. Department of Commerce.

Foreign Trade

The international transactions of the United States after the termination of hostilities in 1945 showed a pattern similar to that of domestic business, declining at first and then rising again during 1946. This pattern reflects the decline in demand created by the ending of the war and the subsequent increase in the production of civilian goods both here and abroad.

Recorded merchandise exports, stimulated by relief contributions, foreign loans, and dollar balances accumulated by some countries during the war, increased steadily throughout the year, ex-

cept for the interruption caused by the shipping strikes in September and October. Total transfers of goods, on the other hand, reached their highest level during the June quarter, primarily because of the bulk disposal of surplus goods to France for 300 million dollars.

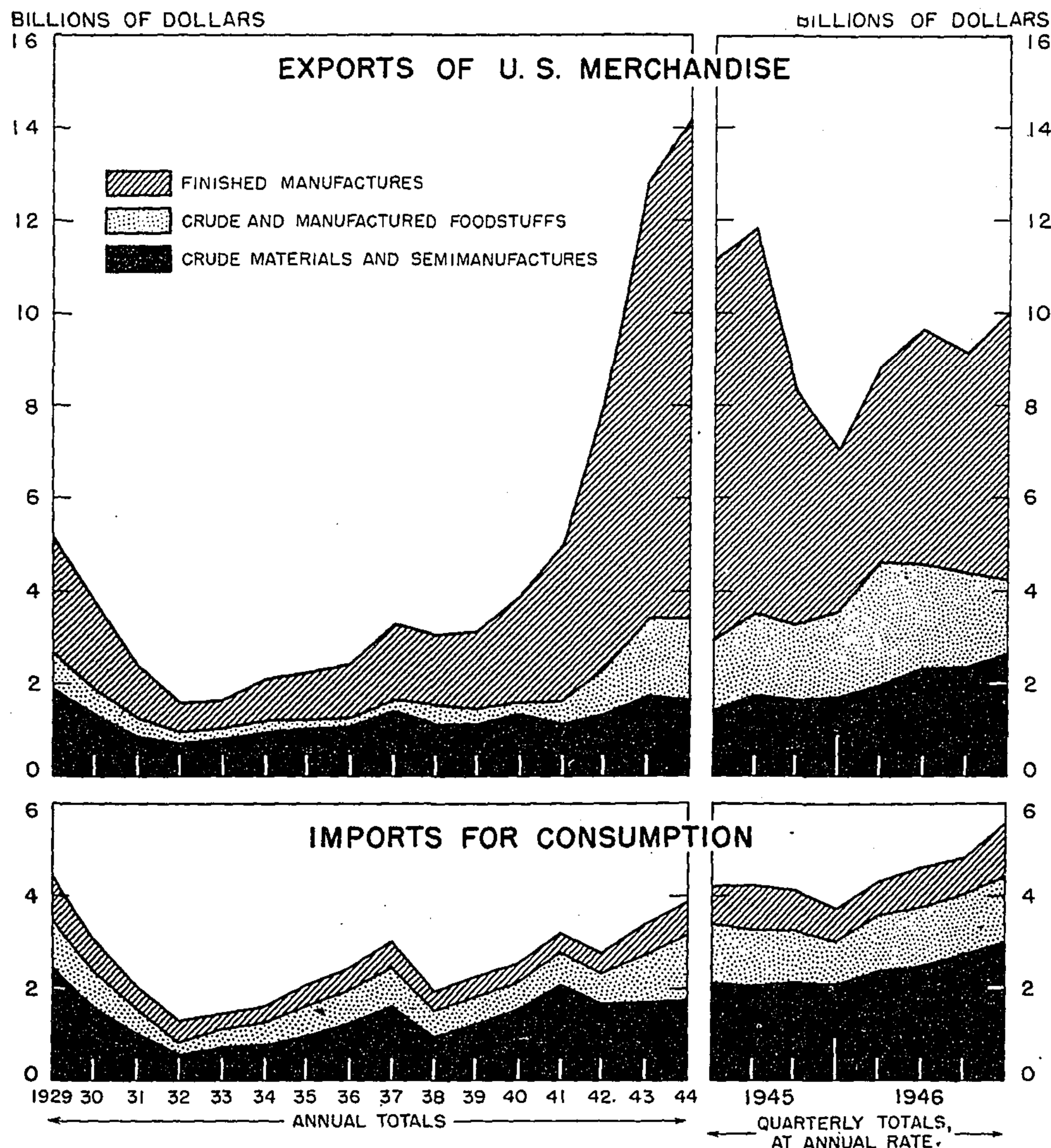
Imports also rose steadily during the year, reflecting increased availability of supplies abroad and to some extent higher prices. Service transactions, however, declined during the year, chiefly as a result of the continued reduction of military activity in foreign areas. Receipts and payments for transportation

services remained at a high level in accordance with the rising physical volume of trade. Tourist expenditures rose, particularly to and from neighboring countries, but not sufficiently to compensate for declining transactions by the armed forces.

The surplus of goods and services transferred to foreign countries increased from 7.2 billion dollars in 1945 to over 8 billion dollars in 1946. A detailed account of the means of financing this surplus appeared in previous articles in the SURVEY.¹ Preliminary data indicate

¹ July, October, December, 1946.

Chart 19.—U. S. Foreign Trade, by Economic Classes



Source of data: U. S. Department of Commerce.

that in 1946 gifts and donations financed 39 percent of the export surplus, long- and short-term loans about 43 percent, and liquidation of foreign assets including gold about 17 percent. This represents a sharp decline of gifts and donations and an increase in loans and utilization of foreign assets compared to 1945. The changes in the means of financing the export surplus are due primarily to the termination of straight lend-lease.

Government Transactions Decline

With the cessation of hostilities in 1945 the United States Government reduced its active participation in international as well as in domestic economic activities. The decline in the Government share of merchandise transferred as compared to the war period coincided with the decline of lend-lease and the virtual termination of reverse lend-lease after VJ-day. Reduced activities by the armed forces in foreign countries also

contributed to the diminishing role of the Government in international transactions. The decline in these two spheres of Government activity was partly and temporarily offset by increasing relief shipments and surplus property disposals abroad.

Direct selling by Government corporations, chiefly the Commodity Credit Corporation, increased, reflecting the resumption of foreign cash purchases after the termination of straight lend-lease, and higher prices especially of agricultural products. The sale of agricultural products proceeded through Government corporations as long as supplies were insufficient to meet both domestic and foreign requirements, and certain quotas for export had to be set aside. With the improvement of the supply situation, new contracts by the Government for procurement on foreign account ceased after January 1, 1947.

The dollar value of Government imports of raw materials and other products remained relatively stable throughout the year, but accounted for a declining share of total imports. No new contracts for the purchase of certain raw materials, such as copper, lead, copra, and specified fibers were to be entered into after the end of 1946. Other commodities, whose world supply continued to remain short, such as rubber and tin, were still on the procurement list. As foreign supplies more nearly approach demand, however, Government procurement activities, except for the stock piling program, are likely to be terminated.

Controls Relaxed

In addition to the relative decline of United States Government participation in actual purchases and sales or other transfers of commodities and services, Government controls and regulations of international trade were considerably relaxed. International allocation of raw materials through the Combined Raw Materials Board had been terminated at the end of 1945; allocations of foodstuffs through the Combined Food Board continued only until June 30, 1946. At the end of 1946 wheat, sugar, fats and oils, rubber, tin, and some minor commodities remained under allocation through social international agreements. Moreover, increased supplies in this country made it possible to remove from export controls a long list of domestic products.

Exports of Foodstuffs at Peak Rate

Merchandise exports during 1946 reflected the role of the United States in providing for the relief and rehabilitation needs of foreign countries. Recorded exports of foodstuffs reached an annual total of about 2.2 billion dollars (0.8 billion of which were UNRRA and lend-lease exports), higher than at any time since 1919 when, under similar circumstances, they amounted to 2.6 billion dollars. In addition to recorded exports, about 475 million dollars of foodstuffs were exported to the occupied areas during the year by the armed forces.

The increase of the share of foodstuffs in total recorded exports from only 10 percent during the years 1936-38 to about 23 percent during 1946 represents an interruption of the trend in the composition of our exports. Over the last 70 years, with the exception of a few years during and immediately after World War I, food exports have comprised a declining proportion of the total. As the rehabilitation of foreign areas progresses and lend-lease and relief programs are terminated, the relative importance of foodstuffs in total exports is likely to resume a declining trend.

High Raw Material Exports

Exports of crude materials and semi-manufactured products (other than foodstuffs) showed a rise from 1.7 billion dollars or 17.3 percent of total recorded exports in 1945 to about 2.3 billion dollars or 24 percent of recorded exports during 1946. Even at that rate raw material exports have not yet reached their pre-war share of total exports (38 percent during the years 1936 to 1940). The dollar value of these exports, however, was higher than at any time since 1920, when exports in these categories reached a peak of over 2.8 billion dollars.

The high dollar rate of raw materials exports after both wars resulted from similar factors, chiefly the inability of war-devastated areas to provide their customary share of the world demand for such products, the world-wide need to rebuild depleted inventories, and higher prices. The need for replenishing inventories also existed in the United States where a relatively large part of the 1946 production did not reach the final consumer, but appeared as an increase in the stocks both of producers and distributors.

Finished Goods Exports Increase

At their wartime peak in 1944 exports of finished manufactures (other than foodstuffs) amounted to more than 10.7 billion dollars or 76 percent of the total but declined to an annual rate of 3.5 billion dollars at the end of 1945. During 1946 exports of finished manufactures recovered to about 5.0 billion dollars or 53 percent of total exports.

The long-run trend for over 100 years before the war showed a steady increase in the share of manufactured products in total exports. Because of heavy shipments of war material under lend-lease this class of exports outran the trend during the war, but in 1946 the ratio of finished goods to the total was about the same as in the late 1930's, whence it may be expected to continue its gradual rise.

Imports Still Below "Normal"

Prior to the war real imports (i. e. imports adjusted for price movements) followed rather closely the volume of production in the United States. Principally because of the disruption of commercial relations, the destruction of foreign productive facilities, and the diversion of production in foreign countries to armaments, this relation between real imports and domestic production was interrupted during the war period.

During the past year imports increased slowly and reached during the last quarter about three-fifths of the level that might have been expected on the basis of current domestic productive activity. This compares to a little over one-half for the year 1945.

The relatively small progress toward the restoration of our imports is, however, the result of two offsetting trends, geographically speaking. Imports from North America had been above the pre-war relationship during the war period and in 1946 declined to or even below the computed "normal" level. Imports from Europe and Asia on the other hand, increased considerably but were still well below the computed "normal."

This analysis suggests that the volume of imports from Europe and Asia should continue to rise. This increase should be fully reflected in total imports since imports from areas unaffected by the war are not expected to decline further. The volume of total imports, should, therefore, show a sharper rise from 1946 to 1947 than during the former year.

Raw Materials Rise; Manufactures Lag

The commodity composition of imports reflected the faster recovery of foreign production of raw materials than of finished manufactures. (See chart 19.) Compared to the prevailing rate of national income imports of crude and semimanufactured materials increased from 53 percent of the computed "normal" in 1945 to about 67 percent during the last quarter of 1946, while finished manufactures during the same period increased only from 46 to 48 percent. In the latter group, however, a decline of imports of war materials, mainly from Canada was compensated by increased imports of civilian manufactured goods. On the basis of prewar relations it seems that the expected increase in total imports will have to come to a relatively greater extent from higher imports of finished manufactures than from higher imports of other commodities. This may very well coincide with the relatively greater increase of imports expected to come from Europe, which before the war supplied about 50 percent of the imports of manufactured goods.

Financial Developments

Government policies and actions continued to set the over-all tone for financial developments during 1946, but the year saw the resurgence of activity in the private money market and increased demand for funds by businesses and consumers generally. As a result of an improved budgetary situation, Federal fiscal operations were no longer a major source of inflationary pressures, as during the war years. In addition, by its debt redemption program the Treasury reversed the long continued growth in the total money supply, although private deposit and currency holdings made further gains during the year.

On the whole, the general financial environment at the end of the year was

highly favorable to continued high production and employment in the economy. There were no evidences of a shortage of funds seeking investment, though in the second half of the year terms of issue were revised to provide more attraction for available funds. However, the firming of interest still left rates in most cases no higher than at the close of 1945. In general, Treasury and Federal Reserve policies during the year continued to be directed toward the maintenance of the existing structure of interest rates.

Federal Cash Surplus in 1946

For the first time in more than 15 years, the Federal Government wound

up the calendar year period with a small excess of cash income over cash outgo. As shown in chart 20, the last time the Treasury was in a somewhat similar position was in the last half of 1937 and in early 1938 when small surpluses were recorded for 2 quarterly periods.

The sharp reversal of the Treasury's position was a welcome development during 1946, since it tended to narrow the gap between demand and available supplies at a time when price ceilings were under considerable pressure. The continuing high level of expenditures, and the large share going to veterans' benefits and related programs, plus the large proportion of taxes derived from corporate profits and graduated taxes on

personal incomes, suggest that the net effect of Federal fiscal operations was still in the direction of supporting buying power, despite the small net withdrawal of cash.

Budget Accounts Still Unbalanced

On a budget basis, as distinguished from a cash basis, the Federal accounts were still unbalanced in 1946, although the deficit for the year was cut to 2.5 billion dollars, as compared with 43.6 billion dollars in 1945 and 52.7 billion dollars in 1944. The two bases yield different results since budget receipts exclude such items as taxes transferred to the Old-Age and Survivors Insurance Trust Fund and budget expenditures include various noncash outlays such as transfers of Treasury funds to other Government agencies. The cash income and outgo data plotted in chart 21 measure actual receipts of money from the public (other than Treasury borrowing) and actual payments to the public.

Public Debt Cut 19 Billion Dollars

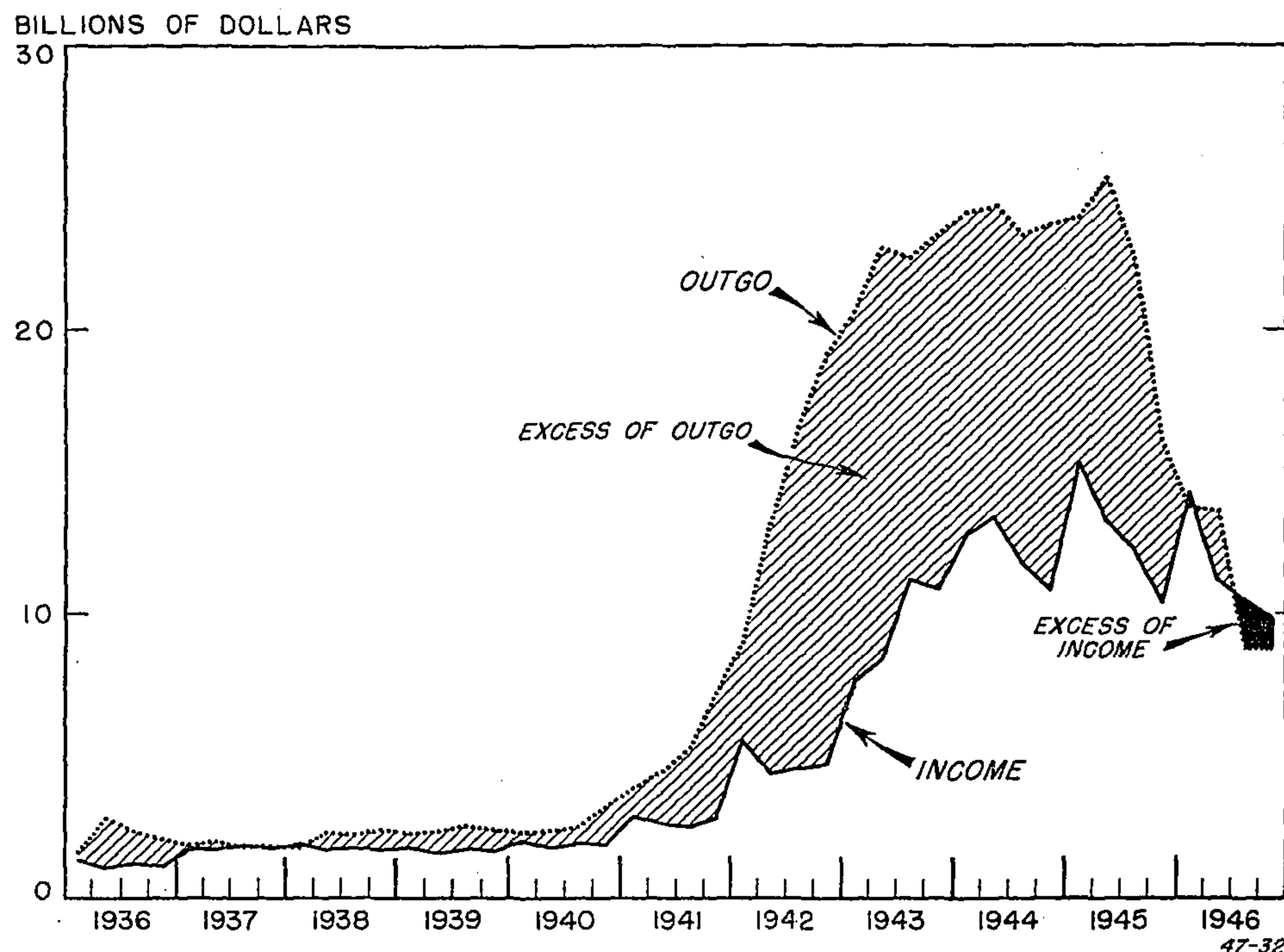
One of the most notable financial developments of 1946 was the large scale debt redemption program of the Treasury which stopped the growth of the Federal debt that had been under way since 1930. The Treasury redeemed for cash 23 billion dollars of securities, predominantly short-term issues held by commercial banks. Since there was an increase in other issues, mainly those held in other Government accounts, the net reduction in the public debt amounted to 19 billion dollars from the end of 1945 and 20 billion dollars from the debt peak in February 1946.

The impact of the debt reduction program on the over-all economy was limited because the bulk of the redemptions was financed through a reduction of the huge wartime cash balance of the Treasury, rather than through an excess of cash receipts over expenditures, and because the holders of the redeemed securities were banks for the most part. With the Treasury's cash balance reduced to a level more in line with post-war needs, it was apparent that further debt reduction would be dependent on a cash surplus.

Private Money Supply Continues Upward

The large-scale drawing down of the Treasury's deposits during 1946 effected a reversal of wartime trends in total money supply. Nevertheless, as shown in chart 21, deposits and currency held by non-Government owners continued to expand at a rapid rate, particularly in the deposit components. In the case of currency holdings, the increase during the year slackened to about the prewar

Chart 20.—Cash Income and Outgo of the U. S. Treasury



Source of data: U. S. Treasury Department.

rate of growth, in marked contrast to the war period when currency accounted for a substantial part of the increase in liquid asset holdings.

Private Borrowers Replace Government

Not only was there in 1946 a complete reversal from wartime in the role of Government in the capital market, but the magnitude of the needed expansion in private borrowing far exceeded that in any preceding year. The significant changes in private capital requirements may be seen from the following estimates of the Commerce Department and the Budget Bureau:

	1939	1944	1946
	Bil- lion dol- lars	Bil- lion dol- lars	Bil- lion dol- lars
Private domestic gross capital forma- tion.....	9.9	3.9	27.1
Sources of funds:			
Undistributed corporate profits....	.4	5.4	6.9
Business reserves.....	7.7	9.6	9.6
Net Government payments to bus- iness.....	.5	-3.6	-2.2
Inventory revaluation adjust- ment.....	-.4	-.1	-3.5
Other sources.....	1.7	-7.4	16.3

Private business gross capital formation was 7 times higher than in the war year 1944, when Government financing was the dominant factor, and almost 3 times as great as in the prewar year 1939. Whereas during the war the large rise in retained business income and in other business reserves resulted in accumula-

tion of liquid business assets, the reverse was true during 1946. While internal sources of funds far exceeded prewar and wartime levels, the rapid expansion of capital requirements resulted in a greatly expanded need for outside funds.

Revival of "New Money" Market

The increased need of businesses for long-term and working capital resulted in a marked revival of activity in the "new money" securities market. During the fourth quarter of 1946, corporations raised about 1.3 billion dollars of new money—over 200 million dollars more than in all of 1945. For the year as a whole, the net proceeds of new money security issues totaled 3 billion dollars, largest since 1930.

The proceeds from new security issues to finance capital expansion rose from 6 percent of total private plant and equipment expenditures in the first quarter of 1946 to over 25 percent in the fourth quarter. During the years 1937 to 1941 this ratio never exceeded 11 percent.

Refinancing Drops Sharply

In contrast to the trend of new money issues, corporate flotations for refunding outstanding securities dropped sharply in 1946. Net proceeds from such issues totaled 3.1 billion dollars, about 1.5 billion dollars less than in 1945 when there was record refunding to take advantage of reduced interest rates. The peak of refunding coincided with the

highly reached in the market for outstanding securities in the second quarter of 1946. Undoubtedly, the sharp reduction of stock market prices in the last half of 1946 was a factor in this trend reversal. These refundings became less profitable as bond prices firmed. Also of importance was the fact that the most profitable refunding operations had been accomplished by mid-year.

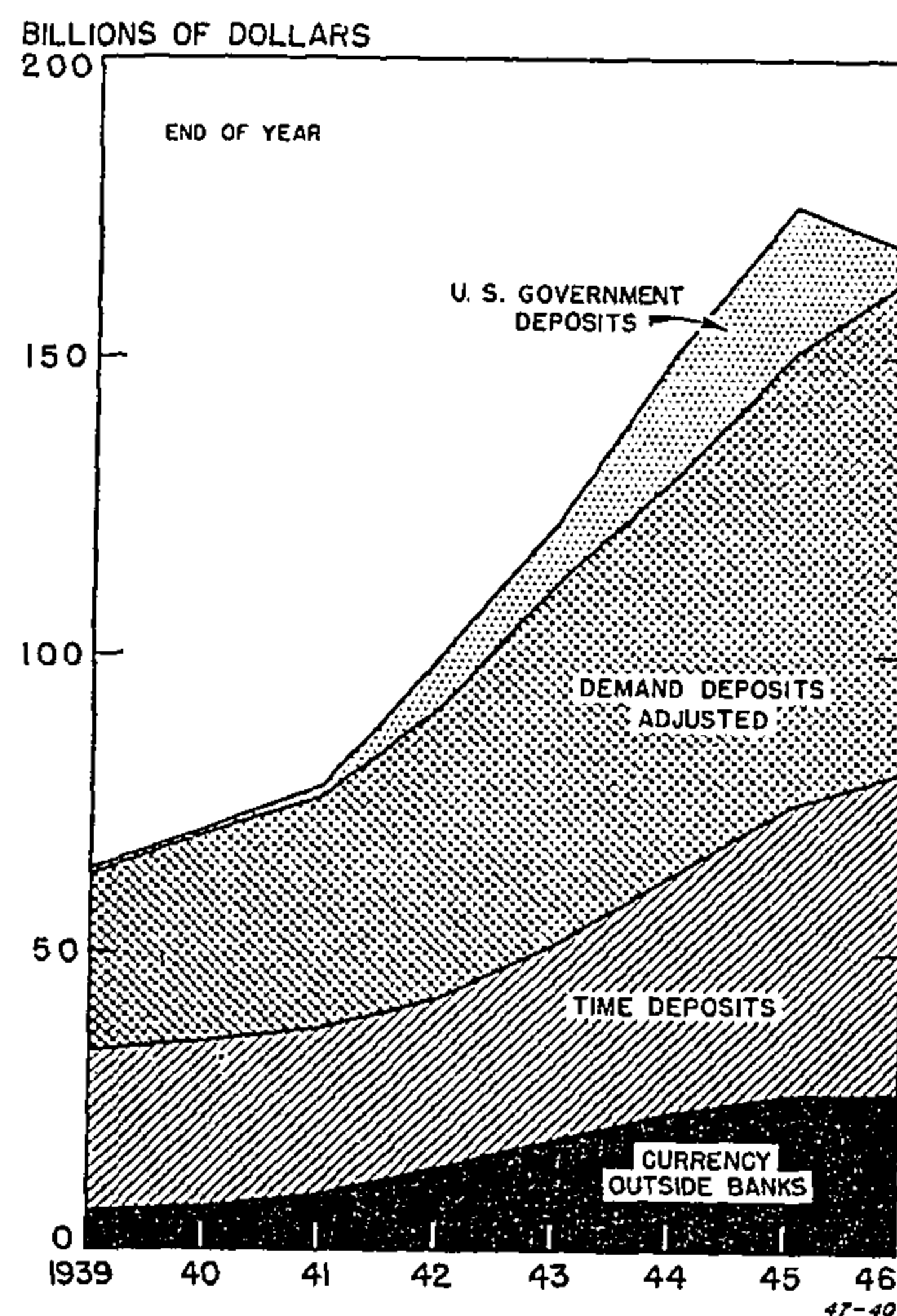
The stock market reversal in the summer of 1946 affected primarily the volume of refunding and the form that new money issues assumed. While the stock market was rising, stocks constituted the bulk of new money issues, but by the fourth quarter of last year, more than four-fifths of the new money issues comprised bonds rather than stocks.

Commercial Loans Rise Sharply

During 1946 business and agriculture found it necessary to supplement funds received from other sources by borrowing from commercial banks. Commercial, industrial and agricultural loans at commercial banks reporting weekly to the Federal Reserve Board amounted to approximately 10.3 billion dollars at the end of the year, 3.0 billion dollars, or 40 percent, more than at the beginning. The bulk of the expansion occurred after

June 30. This suggests that the stepped-up rate of inventory accumulation was a drain on the working capital of many

Chart 21.—Deposits of All Banks and Currency Outside Banks



Source of data: Board of Governors of the Federal Reserve System.

business firms. However, the carrying of increased customer receivables and larger trade payables were also important in increasing the volume of short-term bank borrowing.

Business Liquidity High

Although in the reconversion period, business found it necessary to liquidate some of their more liquid assets, working capital continued in a highly liquid state. Net working capital of corporations (current assets less current liabilities) actually increased, mainly reflecting lower Federal income-tax liabilities.

Estimates of the Securities and Exchange Commission reveal that in the year ending September 30, 1946 (latest data now available), corporate cash and U. S. Government securities holdings were reduced by about 7.4 billion dollars while inventories and receivables rose by about an equal amount. Despite these changes, cash and Government security holdings of 38.5 billion dollars in late 1946 represented almost two-fifths of total current assets of corporations as compared with a ratio of 25 percent at the end of 1939. These assets were also higher in relation to sales than in the prewar period.